

Staff Report

FY 2024 EXECUTIVE BUDGET AND FINANCIAL PLAN

May 24, 2023



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FINANCIAL CONTROL BOARD**

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I. Overview

Data on the city's economy contains mixed signals. The labor market continues to be strong with a robust year-over-year growth in the first four months of the year from the previous year. Leading the gains are growth in accommodations, food services and drinking places, and social assistance. The city's labor force participation rate has increased to the highest participation rate since records were available. Another positive component in the economy is tourism which continues to recover from the pandemic. However, the commercial real estate market continues to be depressed with a historical high office vacancy rate and the residential real estate market shows signs of weakness. Even though inflation had been decelerating after ten consecutive increases in the federal funds rate, the Federal Reserve's ability to tame inflation and guide the economy to a soft landing remains challenging. The recent bank failures and the ensuing credit tightening, along with the impasse on raising the debt ceiling further complicate the outlook. While the FCB expects the economy to slow in the current year, given current economic conditions, the FCB does not expect it to slip into a recession.

The April modification to the FY 2023 budget totals \$108.9 billion, an increase of \$2.5 billion from the January modification. The increase is primarily driven by revisions to the city-funds portion of the budget, which increased by \$2.3 billion. Most of the upward adjustment includes increases to nonproperty tax revenues of \$1.9 billion with personal income and sales taxes, and tax audit revenues accounting for about \$1.5 billion of the growth. Revisions to tax revenues reflect primarily collections to date which are significantly above the January modification. FY 2023 city-funded expenditures, net of prepayments, are \$1.4 billion above the January modification. Driving the increase is the funding for the current round of collective bargaining for city employees based on the pattern established by the District Council 37 and Police Benevolent Association agreements, as well as the cost of providing shelters and services for asylum seekers.

The FY 2024 Executive Budget totals \$106.7 billion, \$4 billion more than the Preliminary Budget released in January. Upward revisions to the city-funds portion of the budget account for \$2.4 billion of the increase. The increase in the categorical-funds portion of the budget reflects estimates of federal and state support for the cost of providing shelters and services for asylum seekers totaling \$1.2 billion. Similar to FY 2023, the rise in city-funded expenditures of the FY 2024 Executive Budget is due primarily to funding for the current round of collective bargaining and the cost of providing for asylum seekers, adding a combined total of \$3.4 billion. Additional expenses in the Executive Budget include other agency spending of \$959 million that is essentially offset by combined debt service and PEG expense savings. Upward revisions of \$2.4 billion in city-funds revenues and an increase of \$868 million in prepayment of FY 2024 debt service enable the city to balance the FY 2024 Executive Budget.

Beyond FY 2024, the Executive Budget projects budget gaps of \$4.2 billion, \$6 billion, and \$7 billion in each of FYs 2025–27, respectively. However, the FCB's risk analysis of the plan shows larger gaps of \$8.1 billion, \$11.3 billion, and \$13.9 billion in FYs 2025 through 2027, respectively, a budget surplus of \$162 million in FY 2023 and a budget deficit of \$2.6 billion in FY 2024. The larger gaps are driven by the FCB's estimate of higher expenditures than projected in the April modification. Overall, the FCB estimates expenditures to exceed plan projection in each year of the plan, ranging from \$388 million in FY 2023 to \$5.4 billion in FY 2027. The FCB's tax revenues are above the plan forecast

by \$550 million and \$89 million in FY 2023 and FY 2024, respectively, resulting in a projected budget surplus in FY 2023 and mitigating the expenditure risk in FY 2024. In the outyears, the FCB's revenue projections are below the plan's, adding to the projected expenditure risks.

With the release of the April 2023 Financial Plan, the city produced an expanded Five-Year Capital Plan for FYs 2023–27 and Ten-Year Capital Strategy for FYs 2024–33. Authorized total-funded commitments amount to \$98 billion in the capital plan and \$165 billion in the capital strategy. At the current level, the capital program is expected to produce rising debt from tax-supported bonds sold by the city and the New York City Transitional Finance Authority (NYCTFA). Financing the program will require an increasing portion of the city's tax revenues to pay debt service costs projected to reach 14.4 percent of tax revenues in FY 2033, which is close to the affordability level determined by the city at 15 percent. In addition, city and NYCTFA outstanding debt is projected to grow to almost \$115 billion by FY 2027. Based on the city's calculations, available debt-incurring power set by the authorized limit is projected to shrink to \$8 billion by FY 2027, which may cause the city to constrain its capital program.

**Table 1. April Financial Plan: The City's Operating Projections
Fiscal Years 2023–2027**

(\$ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
<u>Revenues</u>					
Taxes:					
General Property (Including STAR)	\$31,570	\$32,405	\$32,366	\$32,633	\$33,238
Other Taxes	38,318	38,013	39,747	41,118	42,962
Tax Audit Revenue	1,200	721	721	721	721
Miscellaneous Revenues	8,251	7,793	7,624	7,562	7,518
Unrestricted Intergovernmental Aid	297	--	--	--	--
Less: Intracity Revenues	(2,361)	(1,996)	(1,987)	(1,989)	(1,986)
Disallowances	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>
Total City Funds	\$77,260	\$76,921	\$78,456	\$80,030	\$82,438
Other Categorical Grants	1,109	1,082	1,075	1,070	1,070
Interfund Revenues	706	720	725	732	732
Federal Categorical Grants	11,721	10,411	8,060	7,052	7,026
State Categorical Grants	<u>18,113</u>	<u>17,555</u>	<u>17,540</u>	<u>17,304</u>	<u>17,367</u>
Total Revenues	\$108,909	\$106,689	\$105,856	\$106,188	\$108,633
<u>Expenditures</u>					
Personal Service	\$55,250	\$55,595	\$58,363	\$60,881	\$62,886
Other Than Personal Service	51,505	46,860	43,960	42,764	43,535
General Obligation, Lease & TFA Debt Service	7,544	7,815	8,266	9,034	9,725
Budget Stabilization & Prepayments	(3,079)	(3,035)	--	--	--
Capital Stabilization Reserve	0	250	250	250	250
General Reserve	<u>50</u>	<u>1,200</u>	<u>1,200</u>	<u>1,200</u>	<u>1,200</u>
Subtotal	\$111,270	\$108,685	\$112,039	\$114,129	\$117,596
Less: Intracity Expenditures	<u>(2,361)</u>	<u>(1,996)</u>	<u>(1,987)</u>	<u>(1,989)</u>	<u>(1,986)</u>
Total Expenditures	\$108,909	\$106,689	\$110,052	\$112,140	\$115,610
Gap To Be Closed	\$0	\$0	(\$4,196)	(\$5,952)	(\$6,977)

Table 2. Changes to the City's Operating Projections Fiscal Years 2023–2027 April Plan Compared to January Plan

(\$ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
<u>Revenues</u>					
Taxes:					
General Property (Including STAR)	\$149	\$392	\$220	\$477	\$1,082
Other Taxes	1,458	1,859	1,996	1,957	2,734
Tax Audit Revenue	479	--	--	--	--
Miscellaneous Revenues	268	277	243	250	229
Unrestricted Intergovernmental Aid	45	--	--	--	--
Less: Intracity Revenues	(148)	(94)	(87)	(93)	(90)
Disallowances	--	--	--	--	--
Total City Funds	<u>\$2,251</u>	<u>\$2,434</u>	<u>\$2,372</u>	<u>\$2,591</u>	<u>\$3,955</u>
Other Categorical Grants	(63)	22	18	15	16
Interfund Revenues	(20)	22	26	33	33
Federal Categorical Grants	(703)	926	(91)	35	27
State Categorical Grants	<u>1,056</u>	<u>630</u>	<u>377</u>	<u>87</u>	<u>86</u>
Total Revenues	\$2,521	\$4,034	\$2,702	\$2,761	\$4,117
<u>Expenditures</u>					
Personal Service	\$1,804	\$1,039	\$2,264	\$3,186	\$4,038
Other Than Personal Service	1,861	4,044	1,645	680	719
General Obligation, Lease & TFA Debt Service	(110)	(86)	(90)	(71)	(42)
Budget Stabilization & Prepayments	869	(869)	--	--	--
Capital Stabilization Reserve	(250)	--	--	--	--
General Reserve	<u>(1,505)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Subtotal	<u>\$2,669</u>	<u>\$4,128</u>	<u>\$3,819</u>	<u>\$3,795</u>	<u>\$4,715</u>
Less: Intracity Expenditures	<u>(148)</u>	<u>(94)</u>	<u>(87)</u>	<u>(93)</u>	<u>(90)</u>
Total Expenditures	\$2,521	\$4,034	\$3,732	\$3,702	\$4,625
Decrease/(Increase) to the Gap	\$0	\$0	(\$1,030)	(\$941)	(\$508)

Table 3. Risks to the Financial Plan

(\$ in millions, positive numbers are offsets to risks)

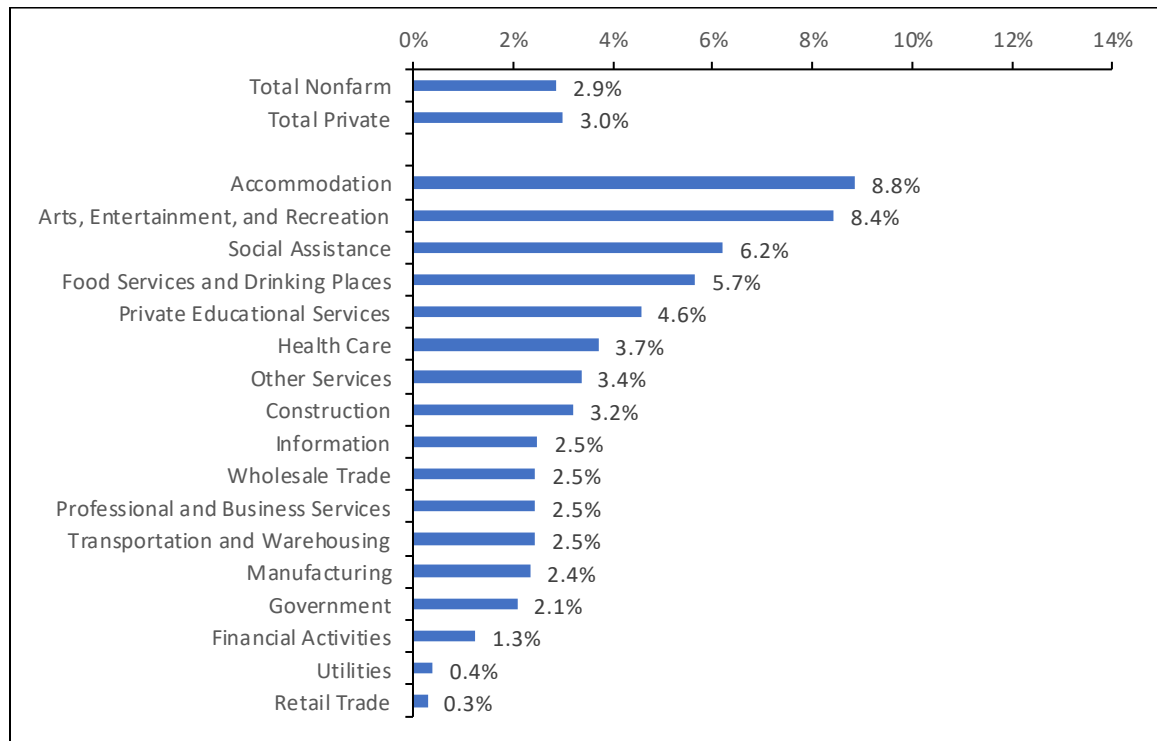
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Stated Financial Plan Gap	\$0	\$0	(\$4,196)	(\$5,952)	(\$6,977)
<u>Revenues</u>					
Tax Revenues					
Property Tax	\$141	\$141	\$384	\$125	(\$474)
Nonproperty Tax	409	(52)	(1,073)	(881)	(979)
Subtotal Tax Revenues	\$550	\$89	(\$689)	(\$756)	(\$1,453)
<u>Expenditures</u>					
Enacted State Budget					
Additional Paratransit Contribution	\$0	(\$165)	(\$165)	\$0	\$0
Increase in Mobility Tax	0	(68)	(72)	(75)	(76)
Rise in Minimum Wage	0	(15)	(22)	(30)	(38)
Retain eFMAP Funding	0	(217)	(261)	(434)	(434)
Reissuance of Charters	0	0	(24)	(63)	(92)
School Aid	0	337	0	0	0
Subtotal Enacted State Budget	\$0	(\$128)	(\$544)	(\$602)	(\$640)
Health and Welfare					
Support for Asylum Seekers	\$0	(\$400)	(\$290)	(\$710)	(\$710)
Paratransit Reimbursements	10	(75)	(89)	(104)	(120)
MTA Bus Operating Deficiency	(92)	(33)	(135)	(274)	(315)
Foster Care	0	(118)	(118)	(118)	(118)
Rental Assistance	0	(233)	(230)	(223)	(229)
Detainee Class Action Settlement	0	(82)	0	0	0
Summer Rising	0	(176)	(176)	(176)	(176)
Shelter Security	0	(66)	(66)	(66)	(66)
Shelter Operations	0	(68)	(68)	(68)	(68)
Contracted Nursing	0	(49)	(49)	(49)	(49)
Rate Increase for Court Counsel	0	(42)	(42)	(42)	(42)
B-HEARD Program	0	(10)	(12)	(12)	(12)
Subtotal Health and Welfare	(\$83)	(\$1,352)	(\$1,275)	(\$1,841)	(\$1,905)
Education					
Carter Cases	(\$207)	(\$472)	(\$472)	(\$472)	(\$472)
Charter Schools	0	(47)	(109)	(298)	(508)
Mandated Class Size Reduction	0	0	0	(433)	(863)
Pupil Transportation	0	(75)	(100)	(150)	(225)
Community Schools Expansion	0	0	(27)	(54)	(54)
Pre-K and 3-K Expansion	0	0	0	(109)	(109)
Subtotal Education	(\$207)	(\$594)	(\$708)	(\$1,516)	(\$2,231)
Agencies					
Uniformed Services Overtime	(\$98)	(\$647)	(\$662)	(\$666)	(\$666)
Subtotal Expenditures Risks	(\$388)	(\$2,721)	(\$3,189)	(\$4,625)	(\$5,442)
Total (Risks)/Offsets	\$162	(\$2,632)	(\$3,878)	(\$5,381)	(\$6,895)
Total FCB Estimated Surplus/(Gap)	\$162	(\$2,632)	(\$8,074)	(\$11,333)	(\$13,872)
Numbers may not add due to rounding.					

II. Economic Outlook

While the national economy continues to recover, it is showing signs of slowing down. Real gross domestic product in the first quarter of 2023 continues a trajectory of decelerating growth. The national economy grew a modest 1.1 percent in the first quarter of 2023 following a 2.6 percent growth in the fourth quarter of 2022, and a 3.2 percent growth in the third quarter of 2022. Personal consumption expenditure continues to be the main driver of economic growth, contributing 2.48 percentage points to the overall growth. In contrast, against a backdrop of rising interest rates, gross private domestic investment declined, dampening the gains from personal consumption expenditures by deducting 2.34 percentage points from overall growth. Government consumption expenditures and gross investment contributed 0.81 percentage points while net exports of goods and services contributed 0.11 percentage points.

However, the labor market remains strong. The nation created 1,138,000 new jobs in the first four months of 2023, with most major sectors and subsectors of the economy posting solid year-over-year growth. On a year-over-year basis, total nonfarm payroll grew by 4.3 million jobs, or 2.9 percent, in the first quarter of 2023, as shown in Chart 1. Accommodation, a subsector of the leisure and hospitality sector, led the increase, rising 8.8 percent. Arts, entertainment and recreation, another subsector of the leisure and hospitality sector, followed closely, rising by 8.4 percent. The unemployment rate remains at a historic low of 3.5 percent in the first four months of 2023.

**Chart 1. Change in Nonfarm Payroll Employment in the Nation
First Four Months 2023 vs First Four Months 2022**



Source: Bureau of Labor Statistics

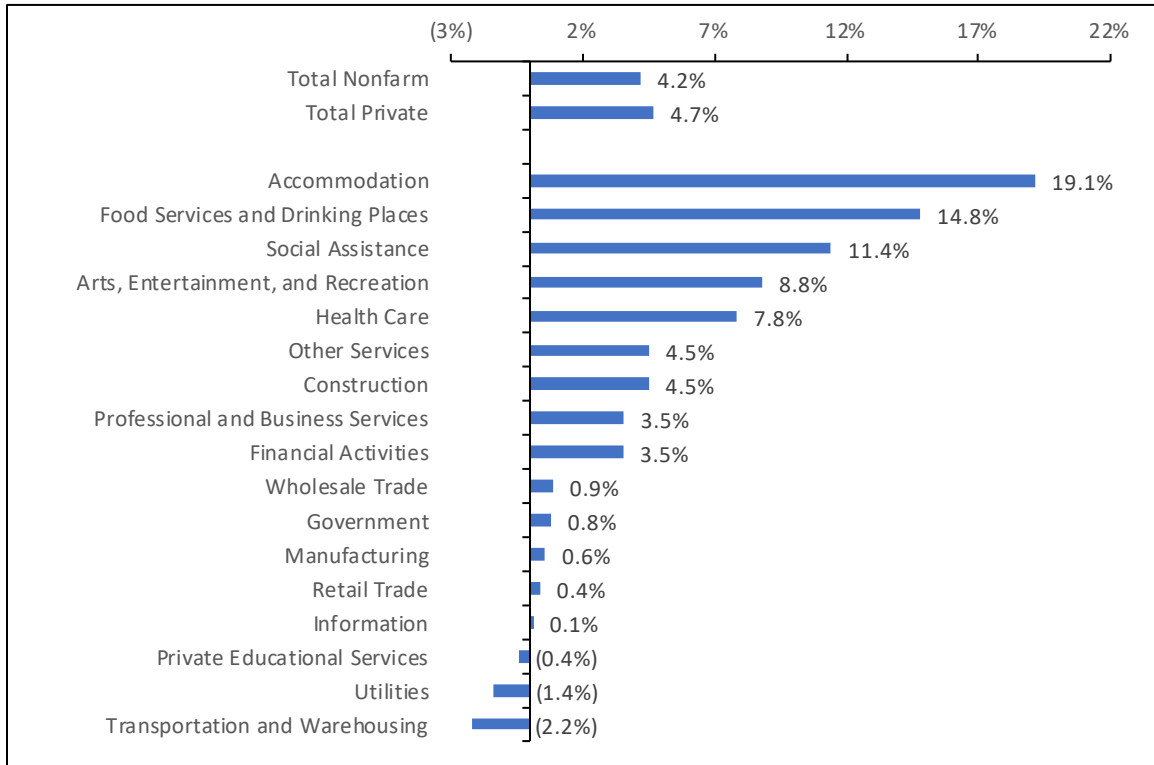
Inflation, which had been decelerating since reaching a peak of 9.1 percent in June 2022, slowed down for the 10th consecutive month in April, posting a 4.9 percent year-over-year growth. After 10 consecutive increases in the federal funds rate which saw the Federal Reserve increase the target range to 5–5.25 percent in May, guidance from the Federal Reserve at the last Federal Open Market Committee (FOMC) meeting has led to a consensus expectation that the Fed will likely pause rate hikes at the next FOMC meeting in June.

The Fed's ability to tame inflation and guide the economy to a soft landing remains challenging. The recent failures of Silicon Valley Bank, Signature Bank, and First Republic Bank and the ensuing credit tightening, along with the impasse on raising the debt ceiling further complicate the picture. However, while the Financial Control Board (FCB) expects the economy to slow in the current year, given current economic conditions, the FCB does not expect it to slip into a recession.

The City Economy

Like the nation, data on the city's economy is sending mixed signals. The labor market continues to be strong with a robust 4.2 percent year-over-year growth in total nonfarm payroll employment in the first four months of the year from the previous year, as shown in Chart 2 on page 8. The city added 22,400 jobs in the first four months of the year, on a seasonally adjusted basis, bringing total employment to 4.67 million, 44,100 jobs short of the 4.71 million jobs in February 2020, just prior to the pandemic. Leading the gains are double digit growth of 19.1 percent in accommodation, 14.8 percent in food services and drinking places, and 11.4 percent in social assistance. However, transportation and warehousing; utilities; and private educational services posted declines of 2.2 percent, 1.4 percent, and 0.4 percent, respectively, in the first four months from a year earlier. During the same period, the city's labor force participation rate has increased to 61.8 percent, the highest labor force participation rate since records became available in 1976. At the same time, the unemployment rate of 5.3 percent in the first four months of 2023 is low by historical standard.

**Chart 2. Change in Nonfarm Payroll in the City
First Four Months 2023 vs First Four Months 2022**



Source: New York State Department of Labor

Another bright spot in the economy is tourism which continues to recover from the pandemic. According to data from New York City Tourism + Conventions, after falling to a low of 22.3 million in 2020, the number of tourists visiting New York City increased to 56.7 million visitors in 2022.¹ The trend appears to be continuing in 2023. According to data from the Port Authority of New York and New Jersey, the total number of revenue passengers arriving at John F. Kennedy International Airport and LaGuardia Airport have increased from 15.5 million in the first quarter of 2022 to 20.8 million in the first quarter of 2023, growing 33.8 percent, surpassing the 20.6 million of revenue passengers who arrived in the first quarter of 2019.

However, the commercial real estate market continues to be depressed with office vacancy rate in the first quarter of 2023 at 22.2 percent, according to data from Cushman and Wakefield, the highest vacancy rate since 2000. The residential real estate market is also showing signs of weakness. The number of building permits have dropped from 175 in the first quarter of 2022 to 63 in the first quarter of 2023 while the number of housing unit building permits has declined from 6,769 in the first quarter of 2022 to 3,700 in the first quarter of 2023, dropping 45.3 percent. On balance, economic data points to a slowdown in economic activities for the latter half of the year.

¹ New York City Tourism + Conventions is the new name for NYC & Company.

III. Review of FY 2023 Modification

The April modification to the FY 2023 budget totals \$108.91 billion, an increase of \$2.52 billion from the January modification. The increase is driven by revisions to the city-funds portion of the budget, which increased by \$2.25 billion, while categorical-funds portion of the budget increased by a much smaller net \$270 million.

Driving the increase in the categorical-funds portion of the budget is an upward revision of \$1.06 billion in state categorical revenues and expenditures. The increase in state categorical revenues and expenditures reflects the recognition of \$438 million in state reimbursement for the FY 2023 cost of providing for asylum seekers. The enacted state budget includes \$1 billion to support 29 percent of the city's cost of providing for asylum seekers in FY 2023 and FY 2024. The April modification recognizes \$438 million of the reimbursement in FY 2023 and the remaining \$562 million in FY 2024. The April modification also includes an upward revision of \$253 million in state grants to support expenditures in the Administration for Children's Services, of which \$101 million is earmarked to replace city-funded expenditures and credited as Program to Eliminate the Gap (PEG) savings. Other significant revisions include increases of \$83 million from the reestimate of cash assistance for safety net assistance, \$62 million for transit overtime, and \$49 million for the healthcare worker bonus program.

Offsetting some of this increase is a combined reduction of \$786 million in the remaining categorical-funds portion of the budget, with the federal funds portion of the budget dropping by \$703 million. The reduction in the federal categorical portion of the budget stems from the removal of the assumption of \$1 billion in federal reimbursement for expenditures related to the provision of services to asylum seekers.

Upward revision to tax revenues accounts for \$2.09 billion of the increase in FY 2023 city-funds revenues. Property tax revenues are increased by \$149 million from a reestimate of the reserves and lien sale.² Nonproperty tax revenues are \$1.94 billion more than the January modification with revisions to personal income tax (PIT), sales tax and tax audit revenues accounting for about \$1.5 billion of the increase. Revisions to tax revenues reflect primarily collections to date which are significantly above the January modification.

City-funded expenditures, before prepayments, are \$1.38 billion above the January modification. Driving the increase is the funding for the current round of collective bargaining for city employees based on the pattern established by the District Council 37 (DC 37) and Police Benevolent Association (PBA) agreements, and the cost of providing shelters and services for asylum seekers. The agreements include annual wage increases above the 1.25 percent assumed in the plan and would result in additional costs of \$2.29 billion in FY 2023, including retroactive payments.

The January plan assumed the cost of providing shelters and services to asylum seekers at \$1 billion in FY 2023, all of which were assumed to be borne by the federal government with no cost to the city. The April modification increased the estimated cost to \$1.4 billion and removed the assumption of federal support. As discussed above, the enacted state budget includes \$1 billion to support the cost of providing shelter and

² Property tax includes school tax relief (STAR).

services to asylum seekers. The April modification assumes that \$438 million will be used to support FY 2023, with the remaining \$962 million to be expended from city funds.

Offsetting some of the expenditure increases from collective bargaining and providing for asylum seekers are agency PEG and debt service savings along with the takedown of the general reserve, the elimination of the capital stabilization reserve, and savings from an adjustment to prior-year payable accruals.

Altogether, the changes to city-funds revenues and expenditures result in an expected increase of \$868 million in the FY 2023 budget surplus, as shown in Table 4. The increase brings the projected FY 2023 budget surplus to \$3.04 billion. The surplus is earmarked to prepay \$2.17 billion of FY 2024 New York City Transitional Finance Authority and \$868 million of FY 2024 city debt service costs, resulting in budget that is balanced according to Generally Accepted Accounting Principles (GAAP). However, while the budget is GAAP balanced, FY 2023 expenditures, net of the impact of prepayment, exceeds revenue estimates by \$3.08 billion — a \$3.08 billion operating deficit.

Table 4. City-Funds Changes from the January Modification

(\$ in millions)	
Revenues	
Tax	\$2,086
NonTax	118
Unrestricted Intergov't Aid	37
PEG	9
Total Revenues	\$2,250
Expenditure	
Collective Bargaining	\$2,288
Asylum Seekers	962
Agency Spending	815
Agency PEGs	(417)
Debt Service Savings	(111)
General Reserve	(1,505)
Capital Stabilization Reserve	(250)
Prior-Year Payable Adjustment	(400)
Total Expenditures	\$1,382
Budget Surplus	\$868
Prepayment	(\$868)
Gap	\$0

Operating Results

As shown in Table 5 on page 11, net of prepayments, FY 2023 expenditures total \$111.99 billion, compared to \$108.91 billion of revenues, resulting in an operating deficit of \$3.08 billion. However, the FY 2022 prepayment of \$6.11 billion of FY 2023 offsets this deficit, leaving a residual \$3.04 billion to prepay FY 2024 expenditures.

Table 5. Changes to the Cumulative Surplus

(\$ in millions)

	Beginning Cumulative Surplus	Revenues	Adjusted Expenditures	Operating Surplus/ (Deficit)	Add'n to Revenue Stabilization Fund	Use of/(Deposit to) RHBT	(Use of)/ Add'n to Cumulative Surplus	Ending Cumulative Surplus
FY 2018	\$4,180	\$88,573	\$88,072	\$501	(\$5)	(\$100)	\$396	\$4,576
FY 2019	\$4,576	\$92,436	\$92,686	(\$250)	(\$5)	(\$100)	(\$355)	\$4,221
FY 2020	\$4,221	\$95,035	\$96,432	(\$1,397)	(\$5)	\$1,000	(\$402)	\$3,819
FY 2021	\$3,819	\$99,707	\$97,414	\$2,293	(\$5)	\$0	\$2,288	\$6,107
FY 2022	\$6,107	\$107,661	\$105,449	\$2,212	(\$1,455)	(\$750)	\$7	\$6,114
FY 2023	\$6,114	\$108,909	\$111,988	(\$3,079)	\$0	\$0	(\$3,079)	\$3,035

The prepayment of subsequent years' expenditures is a way for the city to roll budget surpluses accumulated in prior fiscal years to future years to fund operating deficits as needed, as illustrated in Table 5. The city realized a general fund operating surplus of \$501 million in FY 2018. The city reported a budget surplus of \$5 million for the fiscal year, using the remaining operating surplus to deposit \$100 million in excess of FY 2018 pay-as-you-go retiree health benefits into the Retiree Health Benefits Trust (RHBT), leaving a residual surplus of \$396 million.³

Because the city realized an operating surplus, the prepayment of \$4.18 billion of FY 2018 expenditures was not required for budget balance. Rather, the prepayment together with the residual operating surplus of \$396 million allowed the city to prepay \$4.58 billion of FY 2019 expenditures — essentially rolling the budget surplus accumulated in prior years and FY 2018 into FY 2019.

In FY 2019, the city ran an operating deficit of \$250 million. The FY 2018 prepayment of \$4.58 billion of FY 2019 expenditures allowed the city to offset this deficit. After reporting a budget surplus of \$5 million and depositing \$100 million in excess of FY 2019 pay-as-you-go retiree health benefits, the accumulated surplus available to prepay the following year's expenditures declined to \$4.22 billion. The city had effectively used \$355 million of the accumulated surplus rolled into FY 2019 to fund the operating deficit, make an additional deposit into the RHBT in excess of pay-as-you-go retiree health benefits, and report a budget surplus of \$5 million.

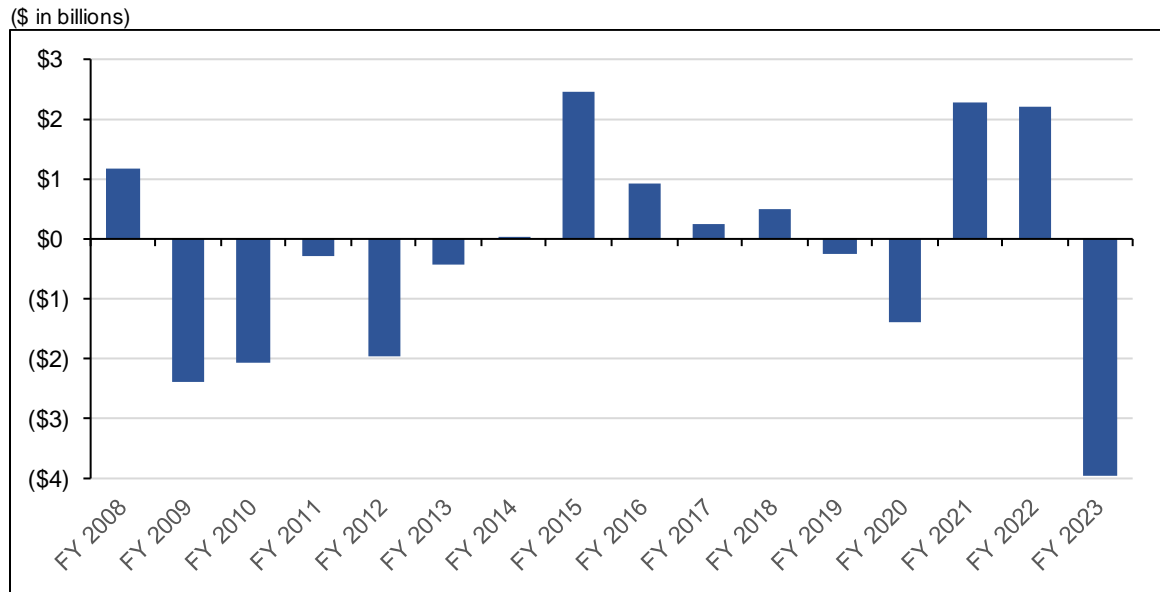
Chart 3 on page 12 shows the city's operating results from FY 2008. In the wake of the Great Recession that began in December 2007, the city ran a general fund operating deficit for five consecutive fiscal years. The city was able to fund the deficits in those years with accumulated surplus from prior years as well as excess funds in the RHBT.⁴ As the city recovered from the recession, the fiscal condition improved and the city realized operating surpluses from FYs 2014–18, before running an operating deficit in FY 2019 and FY 2020. The April modification to the FY 2023 budget shows an operating deficit of

³ Prior to FY 2020, reported budget surpluses were allocated to the nonspendable fund balance in the city's General Fund balance sheet. In FY 2020, state legislation authorized the city to establish a revenue stabilization fund (RSF) as a reserve account and to fund the RSF with reported budget surpluses accumulated in the nonspendable fund balance. Effective FY 2020, the nonspendable fund balance was converted to a spendable committed fund balance, with the fund balance committed to the RSF. The spendable fund balance stood at \$1.954 billion as of June 30, 2022.

⁴ From FY 2010 through FY 2013 the city used \$2.15 billion of RHBT funds to offset part of its pay-as-you-go retiree health benefits expenditures.

\$3.08 billion. The city is typically able to identify additional resources between the executive budget and the close of the fiscal year. It will need to identify \$3.08 billion in additional resources before the close of FY 2023 to end the fiscal year in an operating balance.

Chart 3. Operating Results FY 2008–FY 2023



IV.FY 2024 Executive Budget and Financial Plan

The FY 2024 Executive Budget totals \$106.69 billion, \$4.03 billion more than the Preliminary Budget released in January. Upward revisions to the city-funds portion of the budget account for \$2.43 billion of the increase. The increase in the categorical-funds portion of the budget reflects estimates of federal and state support of \$600 million and \$562 million, respectively, for the cost of providing shelters and services for asylum seekers.

The increase in city-funded expenditures in the Executive Budget is due primarily to funding for the current round of collective bargaining and the cost of providing for asylum seekers. The Preliminary Budget had included funding for wage increases of 1.25 percent and assumed no expenditures related to asylum seekers. Funding for collective bargaining patterned after the recent labor agreements with DC 37 and the PBA adds \$1.68 billion to FY 2024 city-funded expenditures while spending on asylum seekers adds another \$1.74 billion.⁵ The Executive Budget also increases other agency spending by \$959 million but this is virtually offset by combined debt service and PEG expense savings of \$949 million.⁶ Overall, city-funded expenditures before prepayments are \$3.30 billion above the Preliminary Budget.

Upward revisions of \$2.43 billion in city-funds revenues and an increase of \$868 million in prepayment of FY 2024 debt service enable the city to balance the FY 2024 Executive Budget. Revisions to tax revenues account for \$2.24 billion of the increase in city-funds revenues.

Beyond FY 2024, the Executive Budget projects budget gaps of \$4.20 billion, \$5.95 billion, and \$6.98 billion in FYs 2025–27, respectively. However, the Financial Control Board's (FCB) risk analysis of the plan shows larger gaps of \$8.07 billion, \$11.33 billion, and \$13.87 billion in FYs 2025 through 2027, respectively, a budget surplus of \$162 million in FY 2023 and a budget deficit \$2.63 billion in FY 2024, as shown in Table 3 on page 5. The larger gaps are driven by the FCB's estimate of higher expenditures than projected in the April modification. Overall, the FCB estimates expenditures to exceed plan projection in each year of the plan, ranging from \$388 million in FY 2023 to \$5.44 billion in FY 2027. The FCB's tax revenues are above the plan forecast by \$550 million and \$89 million in FY 2023 and FY 2024, respectively, resulting in a projected budget surplus in FY 2023 and mitigating the expenditure risk in FY 2024. In the outyears, the FCB's revenue projections are below the plan's, adding to the projected expenditure risks.

Revenues

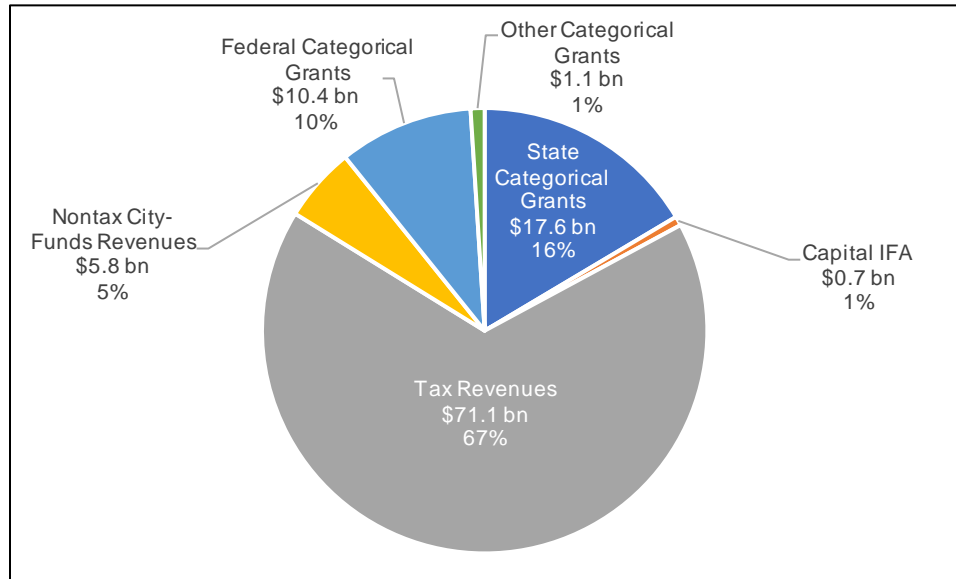
Revenues in the FY 2024 Executive Budget total \$106.69 billion. City-funds revenues, which comprise tax revenues and locally generated non-tax revenues, account for more than 70 percent of total revenues, as shown in Chart 4 on page 14. Revenues are projected to grow by \$1.94 billion, or 1.8 percent, by the end of the plan period. The growth is driven by city-funds revenues, which are projected to grow by \$5.52 billion, or

⁵ In total the FY 2024 Executive Budget assumes \$2.9 billion in spending for asylum seekers — \$1.74 billion city-funded, \$600 million federal-funded, and \$562 million state-funded.

⁶ In addition to \$863 million in PEG expense savings, the FY 2024 PEGs include \$98 million of additional revenues from PEG revenue initiatives.

7.2 percent. Categorical grants, in contrast, are projected to fall \$3.57 billion, or 12.0 percent, offsetting some of the increase in city-funds revenues. The decline in categorical grants is driven by a \$3.39 billion drop in federal categorical grants, largely reflecting the wind down of COVID relief and stimulus grants.

Chart 4. FY 2024 Revenue Sources



Tax Revenues

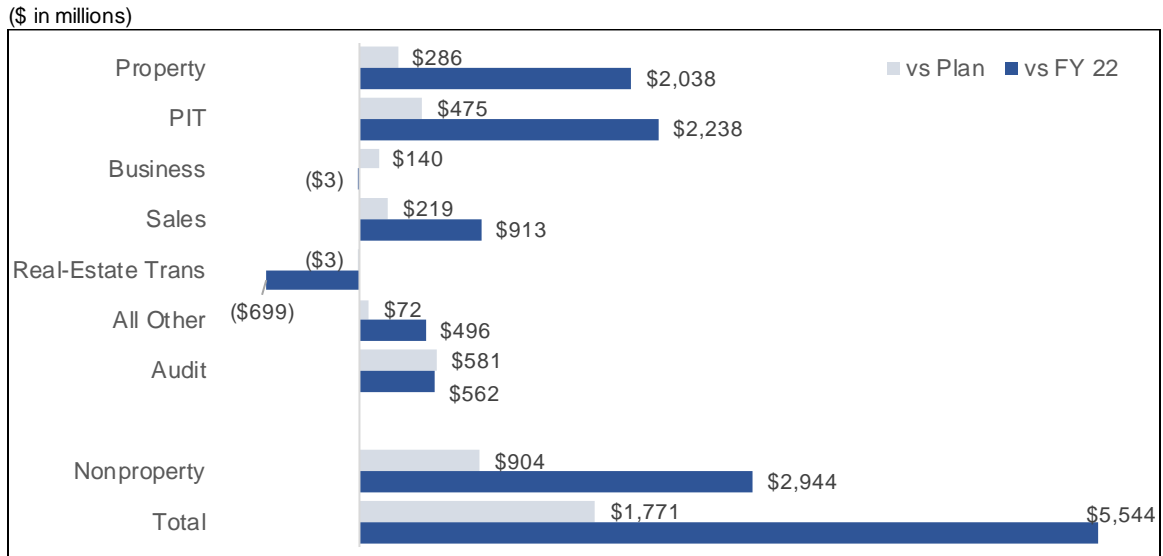
The April financial plan revised tax revenue forecasts against a backdrop of strong overall tax revenue collections for the first nine months of FY 2023 and some economic headwinds going into FY 2024. Total tax revenue is projected to be over \$70 billion each year of the financial plan, for a total increase of over \$5.8 billion over the plan period FYs 2023–27, or a total increase of \$7.3 billion over FY 2022.

Collections to date

Tax revenue collection is generally performing well against FY 2022 and the January plan in the first nine months of FY 2023, as illustrated in Chart 5 on page 15. All tax groups perform above the January plan and FY 2022 except for business tax, which is marginally below FY 2022, and real-estate transaction tax which underperforms both the plan and FY 2022. Total collections, driven by both robust property and nonproperty collections, are higher than FY 2022 by over \$5.5 billion over the same period, and above the January plan by over \$1.7 billion.⁷

⁷ Unless otherwise stated, property tax includes school tax relief (STAR); PIT (personal income tax) includes PTET (pass-through entity tax); business tax includes general corporation, unincorporated business and banking corporation taxes where applicable; real estate transaction tax includes real property transfer and mortgage recording taxes; all other includes commercial rent, utility, hotel, cigarette, cannabis and other taxes; nonproperty includes all taxes except property tax, STAR and tax audit; total includes all taxes, STAR and tax audit.

**Chart 5. Collections Through the First Nine Months of FY 2023
vs January Plan and FY 2022**



As the FY 2023 real estate market recovered from the FY 2022 valuation slump associated with the COVID-19 pandemic, property tax collections through March surpassed FY 2022 collections over the same period by more than \$2 billion, and plan projections by \$286 million. Nonproperty tax collections also perform well, exceeding plan projections by \$904 million and FY 2022 by over \$2.9 billion, driven by personal income (PIT), sales, and all other taxes, particularly hotel.⁸ However, against a backdrop of rising interest rates, real-estate transaction tax collections slumped and have been underperforming FY 2022 monthly collections since October. Cumulatively, collections are down almost \$700 million compared with FY 2022, and \$3 million compared with plan. Audit revenues exceed both January plan forecast and FY 2022 collections by over \$550 million, much of which came from strong audit collections of business tax in January.

A new tax, cannabis, came in at \$204 thousand in March. The Marijuana Regulation & Taxation Act legalized adult-use marijuana and related products on March 31, 2021. The state imposed a 13 percent tax, four percent of which goes to local governments based on where the dispensary is located.⁹ Legal challenges delayed the issuance of licenses until recently.

Plan to Plan Changes

The April plan has significantly raised tax revenue forecasts compared with the January plan, reflecting the strong collections fiscal year-to-date through March against the January modification forecast. The April plan raised tax revenue forecasts above the January plan by over \$2 billion in each year of FYs 2023–26, and by over \$3.8 billion in FY 2027, as shown in Table 6 on page 16. Revisions were made to all major tax categories. All categories were revised up each year except for FY 2023 real-estate

⁸ PIT includes pass-through entity tax (PTET).

⁹ “What is in the Law Taxation and Revenue,” Office of Cannabis Management, New York, <https://cannabis.ny.gov/system/files/documents/2022/04/cannabis-management-fact-sheet-taxation-03.pdf>.

transaction tax revenue, which was revised down by a moderate \$3 million, reflecting the state of collections to date. Nonproperty taxes account for 69.9 percent of the revision in FY 2023, 82.6 percent in FY 2024, 90.1 percent in FY 2025, 80.4 percent in FY 2026 and 71.6 percent in FY 2027.

Table 6. Tax Revenue Changes from January to April Plan

(\$ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Property	\$149	\$392	\$220	\$477	\$1,082
PIT	\$657	\$399	\$663	\$853	\$1,487
Business	\$350	\$566	\$413	\$252	\$224
Sales	\$331	\$506	\$452	\$356	\$417
Real-estate Transaction	(\$3)	\$49	\$90	\$65	\$108
All Other	\$123	\$340	\$379	\$431	\$498
Audit	\$479	\$0	\$0	\$0	\$0
NonProperty	\$1,458	\$1,860	\$1,997	\$1,957	\$2,734
Total	\$2,086	\$2,252	\$2,217	\$2,434	\$3,816

For FY 2023, much of the revisions came from PIT (31.5 percent) and audit (23 percent). Except for FY 2024, PIT accounted for 30 percent or more of the revision in each year. For property tax, the size of the levy was revised up for FYs 2024–27. For FY 2023, gross collection for PIT was revised down but increased forecast for PTET offsets this. Higher gross collections are forecasted for the other years of the plan. The lower revision for real estate transaction in FY 2023 is from the mortgage recording tax.

Tax revenue growth assumptions

For FY 2023, total tax revenue is projected to increase \$1.5 billion, or 2.1 percent over FY 2022 as illustrated in Table 7 on page 17. The growth is driven by property tax revenue which is projected to increase 6.7 percent or about \$2 billion, consistent with collections so far. Tempering this growth is a projected 2.2 percent decline in nonproperty tax revenues, which offsets the gain in property tax by \$848.2 million. The projected decline in nonproperty tax stems from expected drops in PIT, business and real-estate transaction tax revenues. PIT is expected to fall 4.5 percent or \$756.7 million, even as collections to date are up \$2.2 billion over FY 2022. Business tax revenues are expected to fall 4.7 percent or \$389 million. Collections to date are below FY 2022 but by a marginal \$3.4 million. Real estate transaction tax revenues are expected to fall by almost a third — 32.7 percent or \$1.1 billion — reflecting the weakness in collections to date of almost \$700 million less than FY 2022. Sales tax revenue is forecast to grow 10.7 percent or \$918 million, consistent with collections to date of \$913 million above FY 2022. All other taxes and audits are projected to increase more in line with collections to date.

Table 7. April Plan Tax Revenue Growth Rate Assumptions

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Average Annual Growth
Property	6.7%	2.6%	(0.1%)	0.8%	1.9%	1.3%
PIT	(4.5%)	(4.4%)	5.8%	3.7%	6.2%	2.7%
Business	(4.7%)	(1.5%)	0.3%	(0.2%)	1.3%	0.0%
Sales	10.7%	3.3%	5.6%	5.7%	4.1%	4.7%
Real-Estate Transaction	(32.7%)	0.7%	8.2%	5.1%	6.9%	5.2%
All Other	17.8%	6.5%	3.2%	2.7%	2.8%	3.8%
Audit	41.4%	(39.9%)	0.0%	0.0%	0.0%	(12.0%)
Nonproperty	(2.2%)	(0.8%)	4.6%	3.4%	4.5%	2.9%
Total	2.1%	0.1%	2.4%	2.2%	3.3%	2.0%

For FY 2024, the April modification forecasts total tax revenue to be essentially flat, with a marginal increase of 0.1 percent or \$51.7 million. Mirroring the deceleration in FY 2024 property market growth in the tentative assessment roll, the forecast for property tax revenue growth slows to 2.6 percent, increasing by \$835.3 million, less than half the increase in FY 2023. Nonproperty tax revenue is projected to continue its decline but moderates to a decline of only 0.8 percent or \$304 million, less than half the drop forecasted for FY 2023. PIT and business tax revenues continue to deteriorate in FY 2024. PIT continues to see significant decline of 4.4 percent or \$698 million, while the decline in business taxes slows to 1.5 percent or \$120 million. Unlike PIT and business tax, real-estate transaction tax revenue is projected to rebound with a growth of 0.7 percent or an increase of \$16 million — recovering from a projected drop of over \$1 billion in FY 2023 as inflation and interest rate slows. Sales tax increase moderates to 3.3 percent or \$310 million. All other taxes increase 6.5 percent or \$187.6 million, while audit revenues decline 39.9 percent or \$479.1 million.

From FYs 2023–27, total tax revenue is projected to grow two percent annually, as shown in Table 7, for a total increase of 8.2 percent or \$5.8 billion by FY 2027. Property tax revenue grows 1.3 percent annually over this period, increasing by 5.3 percent or \$1.7 billion over the period. After a projected decline in FY 2024, nonproperty tax is expected to recover in the outyears of the plan to average 2.9 percent annual growth, increasing 12.1 percent or \$4.6 billion over this period. Business tax is the only nonproperty tax category that stays weak over this period. After projected declines in FY 2024 and FY 2026, business tax is projected to barely rebound to its FY 2023 level in FY 2027. PIT, after a projected decline in FY 2024, is expected to rebound in the outyears, posting a cumulative increase of \$1.8 billion by 2027, averaging 2.7 percent annual growth between FY 2023 and FY 2027. Sales tax stays robust over this period, increasing 4.7 percent annually for a total increase of 20 percent or \$1.9 billion. Real-estate transaction recovers well in the outyears of the plan to grow 5.2 percent annually with a total increase of 22.3 percent or \$487 million.

Despite the rebound in the outyears, real-estate transaction tax along with business tax revenues remain below FY 2022 levels. Business tax revenue is projected to be \$403 million below its FY 2022 level by the end of the plan period and real estate transaction revenues is expected to be \$572 million below FY 2022.

Although the April modification revised tax revenue forecasts upwards in the early years of the plan to better reflect the strength of collections, the FCB sees some risks in

the outyears' upward projections, especially for nonproperty taxes. While some macroeconomic headwinds such as COVID-19, supply chain and inflation are subsiding, other uncertainties have emerged, including the banking crisis and associated credit crunch, and the debt ceiling impasse. The FCB expects the slowdown in Class 2 and Class 4 properties from the FY 2024 tentative assessment roll to continue through the plan period due to high vacancy rates, the impact of higher interest rates on financing, refinancing and operational costs, and the challenges of readily converting commercial to residential real estate in the shorter period. The FCB is therefore projecting risks and offsets as shown in Table 3 on page 5.

Miscellaneous Revenues

Miscellaneous revenues total \$5.80 billion in FY 2024, an increase of \$183 million from the Preliminary Budget. Revisions to revenues from water and sewer charges; fines and forfeitures; and interest income account for 90 percent of the increase, as shown in the figure to the right. The increase in water and sewer charge revenues reflects revisions to expenditures related to the operation and maintenance of the water delivery and waste disposal system of the city.¹⁰

Miscellaneous Budget Change from January (\$ in millions)	
Licenses, Permits & Franchises	(\$1)
Charges for Service	(3)
Interest Income	34
Water and Sewer Charges	74
Rental Income	3
Fines and Forfeitures	57
Miscellaneous	19
Total	\$183

Revisions to fines and forfeitures is due primarily to \$49 million in additional revenues from PEG initiatives including \$38 million in parking violation fines from increased enforcement, \$6 million in Environmental Control Board fines from anti-idling program, \$4 million from addressing prior years' failure to file penalties for boiler and inspection reports, and \$2 million from focused enforcement of consumer protection, license violations, and tobacco laws. The revision to interest income reflects an increase in the federal funds rate estimates from 4.8 percent in 2023 and 4.3 percent in 2024 to 5.1 percent and 4.6 percent, respectively.

Miscellaneous revenues in FY 2024 are expected to be \$93 million below FY 2023, with income revenues dropping by \$250 million and charges for services and water and sewer charges increasing by a combined \$157 million.¹¹ The drop in income revenues stems from a drop of \$250 million in fines and forfeitures with parking violation fines declining by \$110 million and speed camera fines falling by \$118 million. From FYs 2024–26, miscellaneous revenues are projected to continue falling, declining \$265 million to \$5.53 billion in FY 2027, as shown in Table 8 on page 19. Driving the decline is the drop in interest income, which is projected to fall by \$211 million, reflecting the city's assumption that the federal funds rate will peak in 2023 and begin to decline in 2024.

¹⁰ Water and sewer charge revenues are reimbursements to the city by the New York City Water Board for the operation and maintenance of the water delivery and waste disposal system on behalf of the Board.

¹¹ Cost-based charges are revenues collected from provision of services by the city and for the most part cover the cost of providing these services and are thus not available for budget relief.

Table 8. Miscellaneous Revenues

(\$ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Cost Based Charges					
Charges for Service	\$878	\$1,021	\$1,025	\$1,028	\$1,029
Licenses	77	66	63	67	64
Permits	291	298	303	303	303
Subtotal Cost Based Charges	\$1,245	\$1,385	\$1,391	\$1,398	\$1,396
Water and Sewer Charges	1,826	1,842	1,815	1,813	1,806
Fines and Forfeitures	1,428	1,178	1,174	1,182	1,182
Franchises and Other Privileges	386	330	340	343	326
Interest Income	385	436	318	237	225
Miscellaneous	365	369	340	343	339
Rental Income	255	257	260	258	258
Total	\$5,890	\$5,797	\$5,636	\$5,572	\$5,532

Numbers may not add due to rounding.

Federal and State Aid

Federal and state aid in the FY 2024 Executive Budget is \$1.56 billion more than the Preliminary Budget, with federal aid increasing by \$926 million to \$10.41 billion and state aid increasing by \$630 million to \$17.56 billion. Driving the increase in both federal and state aid is the assumption of federal and state support of \$600 million and \$562 million, respectively, for providing shelter and services to asylum seekers. The roll of \$104 million in FY 2023 federal aid and \$25 million in FY 2025 federal aid into FY 2024 accounts for another \$129 million of the increase in FY 2024 federal aid.

FY 2024 federal aid totals \$10.41 billion, \$1.31 billion less than FY 2023. The decline is due largely to a drop in federal COVID stimulus and relief grants. As shown in Table 9, COVID stimulus and relief grants are projected to drop by \$1.03 billion. Federal aid is expected to continue declining over the remainder of the plan period, falling to \$7.03 billion by FY 2027. The drop reflects the wind down of federal COVID stimulus and relief aid which is projected to drop from \$2.65 billion in FY 2024 to \$10 million in FY 2027.

Table 9. Change in Federal Aid — FY 2024 vs FY 2023

(\$ in millions)

	FY 2023	FY 2024	Change
Non-COVID Federal Aid	\$8,037	\$7,758	(\$279)
COVID Related Federal Aid			
Education Stabilization Fund	\$2,085	\$1,748	(\$337)
FEMA	515	2	(\$513)
ARPA State and Local Fiscal Recovery Funds	509	807	298
Epidemiology and Laboratory Capacity	294	11	(283)
Other	281	85	(196)
Subtotal COVID Related Federal Aid	\$3,684	\$2,653	(\$1,031)
Total	\$11,722	\$10,411	(\$1,311)

Numbers may not add due to rounding.

In the April financial plan, the city projects FY 2024 state aid of \$17.55 billion, \$558 million less than FY 2023. With the exception of education aid, which is projected to increase by \$93 million, the city projects that aid for social services, health and mental

hygiene, and other aids will decline. From FYs 2024–27, the city projects that state aid will remain relatively flat, decreasing by \$188 million to \$17.37 billion by FY 2027.

Other than state support of 29 percent of the city's cost of providing for asylum seekers, the April financial plan does not include the impact of other new provisions in the enacted FY 2023–24 state budget. The most notable provisions not yet factored into the FY 2024 Executive Budget include higher state aid for education with a positive impact of \$337 million, reduced eFMAP funding, and additional contribution toward MTA paratransit cost with negative impacts of \$217 million and \$165 million, respectively.

Expenditures

In the January financial plan, the city projected total-funded expenditures would grow from \$102.655 billion in FY 2024 to \$110.985 billion in FY 2027, or \$8.33 billion. The April financial plan assumes expenditures over the same period growing from \$106.689 billion to \$115.61 billion, or \$8.921 billion, as shown in Table 10.

Table 10. January to April Financial Plan Total-Funded Changes

(\$ in millions)

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
January Plan	\$102,655	\$106,320	\$108,438	\$110,985
City Funds	\$2,434	\$3,402	\$3,531	\$4,464
Federal, State, & Other Funded	<u>1,600</u>	<u>330</u>	<u>170</u>	<u>162</u>
Total-Funded Increase	\$4,034	\$3,732	\$3,702	\$4,625
April Plan	\$106,689	\$110,052	\$112,140	\$115,610

Numbers may not add due to rounding.

City-funded expenditures in the January financial plan show an increase of \$10.464 billion between FYs 2024 and 2027 with spending rising from \$74.487 billion to \$84.951 billion. As shown in Table 11 on page 21, the April financial plan projects higher growth between FYs 2024 and 2027 of \$12.493 billion increasing from \$76.921 billion to \$89.414 billion.

Table 11. January to April Financial Plan City-Funded Changes

(\$ in millions)

	FY 2024	FY 2025	FY 2026	FY 2027
January Plan	\$74,487	\$79,250	\$82,451	\$84,951
Collective Bargaining	\$1,684	\$3,103	\$4,020	\$4,839
Asylum Seekers	1,738	710	--	--
Agencies	959	473	507	558
PEG	(863)	(927)	(926)	(892)
Debt Service	(86)	(89)	(70)	(42)
Federal Funding Adjustment	<u>(130)</u>	<u>132</u>	<u>--</u>	<u>--</u>
Net City-Funded Increase	\$3,302	\$3,402	\$3,531	\$4,463
FY 2023 Prepayment	(868)	--	--	--
April Plan	\$76,921	\$82,652	\$85,982	\$89,414

Numbers may not add due to rounding.

In the FY 2024 Executive Budget, city-funded expenditures are expected to be \$3.302 billion above the FY 2024 Preliminary Budget projection, as shown in Table 11. The city added \$4.381 billion to fund labor settlements, expenses related to the care and sheltering of asylum seekers, and higher agency spending that is partially offset by \$1.079 billion in budgetary savings from a new round of PEG, the shift of ARPA-SLFRF funds from FY 2024 to FY 2025, and lower debt service expenses. Over FYs 2025–27, projected city-funded expenditures rise by a net \$3.402 billion, \$3.531 billion, and \$4.463 billion, respectively, over the April financial plan.

Collective Bargaining

The city has reached labor agreements with DC 37 and the PBA that have both been ratified and account for 31.5 percent of the unionized workforce in the 2021–2026 bargaining round. The DC 37 contract is retroactive beginning on May 26, 2021, and expiring on November 6, 2026, with increases of three percent on the first day of each of the first four years of the contract and a 3.25 percent increase on the first day of the fifth year of the contract. The agreement also includes a \$3,000 ratification bonus for eligible union members and a one percent equity fund jointly funded by the union and the city to address areas with significant recruitment and retention issues.

The PBA contract is an eight-year agreement that is retroactive from August 1, 2017, and ends on July 31, 2025. It includes wage increases ranging from 2.25 percent to four percent and several other benefits.¹² The first three years of the settlement are consistent with raises other uniformed groups received in the 2017–21 round of collective bargaining. The subsequent five years of the agreement establish the pattern for other uniformed unions. The budgetary impact of funding citywide civilian and uniformed collective bargaining patterned after the DC 37 and PBA agreements is recognized in the April financial plan with allocations of \$1.684 billion in FY 2024, \$3.103 billion in FY 2025, \$4.02 billion in FY 2026, and \$4.839 billion in FY 2027, as shown in Table 11.¹³

¹² The PBA contract includes a small funding to increase starting salaries for officers and to improve the schedule for raises in the early years of employment. The agreement also includes a pilot program that allows officers to test working extended tours of 10- and 12-hour shifts.

¹³ The total net cost of the new patterns over the FY 2023–27 period is \$15.934 billion, which includes \$2.288 billion of funding in FY 2023.

Asylum Seekers

Since April 2022, nearly 60,000 asylum seekers have arrived in the city with more than half presently being cared for. The city has expensed about \$1 billion through April 30, 2023, to care for the asylum seekers. The responsibility for providing shelter and other services to the asylum seekers has severely strained city resources. The Mayor declared through an emergency executive order a State of Emergency on October 7, 2022, which instructed all city agencies to coordinate efforts to respond to asylum seekers and take appropriate and necessary actions to preserve health and public safety.

Additionally, the Mayor has issued an executive order suspending parts of the city's right-to-shelter law with an expectation that the pace of arrivals will accelerate with the expiration of Title 42 immigration restrictions on May 11, 2023.¹⁴ The Governor in response to the expiration of Title 42, has declared a statewide state of emergency effective May 9, 2023, through June 8, 2023, to assist in the effort to provide services to asylum seekers. However, after the expiration of Title 42 on May 11, 2023, the federal government returned to using Title 8 immigration authorities to expeditiously process and remove individuals who arrive at the United States border unlawfully.¹⁵

The bulk of services for asylum seekers are shelter provisions that are being provided by the Department of Homeless Services (DHS), Humanitarian Emergency Response and Relief Centers (HERRCs) operated by Health + Hospitals, and contracted hotels. As of March 31, 2023, DHS operates 370 facilities divided into different categories with Family and Adult shelters representing the highest populations. Since April 2022, the city has opened eight HERRCs and has contracted with approximately 49 hotels around the city to serve as emergency shelters. The city expects that total related costs will be \$5.3 billion over FYs 2023–25, as shown in Table 12.

Table 12. Cost Projections for Asylum Seekers FYs 2023–25

(\$ in millions)

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Homeless Services	\$705	\$1,786	\$607
Health + Hospitals	500	748	258
Emergency Management	77	160	55
Citywide Admin Services	38	--	--
Housing Preservation	32	147	51
Social Services	25	29	19
Information Technology	25	30	10
Health and Mental Hygiene	4	--	--
Total Cost	\$1,400	\$2,900	\$1,000

Numbers may not add due to rounding.

¹⁴ Title 42 of the United States Code is the code that addresses public health, social welfare, and civil rights. Title 42 was a previously rarely used clause of the 1944 Public Health Services Law until 2020 that put in place immigration restrictions to prevent migrants from entering the United States. Title 42 granted the government the ability to take emergency action to reduce the spread of communicable diseases such as COVID-19. Title 42 expired on May 11, 2023, because the national COVID-19 public health emergency also expired, eliminating one of the legal underpinnings of the policy.

¹⁵ Title 8, which includes decades-old immigration legislation, outlines processes for handling migrants at the border. While this section of the U.S. Code dictates expedited deportation protocols, it typically allows more time for migrants to lodge asylum claims than what they were afforded under Title 42.

The enacted state budget includes funding 29 percent of the costs incurred by the city over FYs 2023–24, and \$800 million to support municipalities migrant cost nationwide have been appropriated in the federal omnibus bill. To date \$350 million of federal funds have been disbursed to mainly border communities with the city receiving a relatively small portion of about \$30.5 million. The city has budgeted to receive \$600 million of federal funds in FY 2024.

Table 13. Budgeted Cost of Asylum Seekers FYs 2023–25

(\$ in millions)

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
City	\$962	\$1,738	\$710
State	438	562	290
Federal	--	<u>600</u>	--
Total Cost	\$1,400	\$2,900	\$1,000

Numbers may not add due to rounding.

As shown in Table 13, the projected city-funded share of the cost for asylum seekers is \$962 million in FY 2023, growing substantially to \$1.738 billion in FY 2024, and reducing to \$710 million in FY 2025. The enacted state budget allocates \$1 billion over FYs 2023 and 2024 to offset 29 percent of expenditures related to providing for asylum seekers. In FY 2025, the city assumes that state reimbursement will continue to be in next year's state budget, funding \$290 million of the cost.

Program to Eliminate the Gap

The April financial plan PEG totals \$4.804 billion over FYs 2023–27 with expected savings of \$537 million, \$1.047 billion, \$1.107 billion, \$1.089 billion, and \$1.024 billion, respectively. Agency savings are the bulk of the PEG accounting for \$4.026 billion, or 84 percent. Remaining components are debt service savings of \$397 million and revenue generating initiatives of \$380 million.

About half of the agency expense PEG comes from the Department of Education (DOE) and the Police Department with planned aggregate expense savings ranging from \$504 million to \$550 million over FYs 2024–27. Fringe adjustments account for the bulk of savings in the DOE while hiring delays and uniformed personal service savings is expected to produce most of the savings in the Police Department.

The combination of previous PEGs in the November and January financial plans and the current PEG in the April plan, including revenue generating initiatives and debt service savings, over FYs 2023–27, are projected to produce budget relief of \$1.663 billion in FY 2023 and by approximately \$3 billion in each of FYs 2024–27 for a total of \$13.654 billion.

Total- and City-Funded Expenditures Changes Between FYs 2023 and 2024

The FY 2024 Executive Budget assumes total-funded expenditures in FY 2024 of \$106.689 billion, which is \$2.221 billion lower than FY 2023 expenditures of \$108.909 billion, as shown in the figure to the right. The year-to-year decrease is due to a drop in both city-funded expenditures and Federal, State, and Other Funds of \$339 million and \$1.882 billion, respectively. The reduction in Federal Funded expenditures of \$1.311 billion, as shown in the figure, reflects the winding-down of pandemic aid.

City-funded spending is expected to drop by \$339 million between FYs 2023 and 2024. Lower city-funded expenses are led by a projected decrease in Service Agencies' spending totaling \$2.883 billion, with almost one-half in Uniformed Agencies. In contrast there is higher spending for Miscellaneous, Debt Service, and Pensions in Other Budgetary that are estimated to increase by a combined \$700 million.

Expenditures Changes Between FYs 2023 and 2024 City, Federal, State, & Other Funded			
(\$ in millions)	FY 2023	FY 2024	Change
Service Agencies	\$50,600	\$47,717	(\$2,883)
Uniformed	10,739	9,510	(1,230)
Health and Welfare	13,373	13,326	(47)
Citywide and Mayoral	8,748	8,130	(618)
Major Organizations	16,838	15,871	(968)
Elected Officials	902	881	(21)
Other Budgetary	\$30,089	\$30,789	\$700
Miscellaneous	13,443	13,635	193
Debt Service	7,377	7,663	286
Pensions	9,269	9,490	221
Reserves	(\$350)	\$1,450	\$1,800
General	50	1,200	1,150
Prior-Year Payables	(400)	--	400
Capital Stabilization	--	250	250
Net Prepayment	(3,080)	(3,035)	45
City-Funded	\$77,260	\$76,921	(\$339)
Other Funded	\$31,650	\$29,767	(\$1,882)
Federal Funded	11,722	10,411	(1,311)
State Funded	18,113	17,555	(558)
Categorical and IFA	1,815	1,802	(13)
Total-Funded	\$108,909	\$106,689	(\$2,221)
Miscellaneous net of prepayment and capital stabilization reserve. Debt Service net of prepayment. Numbers may not add due to rounding.			

Total-Funded Expenditures

The April financial plan assumes total-funded expenditures would increase from \$108.909 billion in FY 2023 to \$115.610 billion in FY 2027, denoting higher spending of \$6.701 billion, or 6.2 percent, as shown in Table 14 on page 25. The average annual growth over the five-year period is 1.5 percent. Excluding net prepayment, FY 2023 total-funded expenditures are projected at \$111.989 billion, which results in a much smaller growth of \$3.621 billion, or 3.2 percent over the financial plan.¹⁶ The April financial plan projects total-funded spending between FYs 2023 and 2024 would decline by \$2.221 billion, or two percent, reflecting the wind down of pandemic aid. Thereafter, the modification assumes a return of growth from FYs 2024–27 exhibiting year-to-year increases of 3.2 percent, 1.9 percent, and 3.1 percent, respectively.

¹⁶ FY 2023 expenditures are reduced by a net \$3.079 billion because of a FY 2022 prepayment of \$6.114 billion, which consists of FY 2023 debt service of \$5.322 billion and retiree health expense of \$792 million, and a FY 2023 prepayment of \$3.035 billion of FY 2024 debt service, which reduces FY 2024 expenditures by a like amount.

Table 14. Projected Total-Funded Expenditures Growth FYs 2023–27

(\$ in millions)

	FYs 23–24	FYs 24–25	FYs 25–26	FYs 26–27	FYs 23–27	Average Annual
Personal Service	0.6%	5.0%	4.3%	3.3%	13.8%	3.3%
Salaries and Wages	(2.4%)	3.5%	3.8%	3.4%	8.5%	2.1%
Pensions	2.3%	8.1%	4.4%	1.7%	17.5%	4.1%
Fringe Benefits	7.5%	6.4%	5.4%	4.1%	25.5%	5.8%
Other Than Personal	(9.0%)	(6.2%)	(2.7%)	1.8%	(15.5%)	(4.1%)
Medical Assistance	5.6%	(4.0%)	0.0%	2.3%	3.8%	0.9%
Public Assistance	(16.2%)	0.0%	0.0%	21.2%	1.5%	0.4%
Other OTPS	(10.8%)	(6.8%)	(3.3%)	0.8%	(19.1%)	(5.1%)
Debt Service	3.6%	5.8%	9.3%	7.6%	28.9%	6.6%
Total Expenditures	(2.0%)	3.2%	1.9%	3.1%	6.2%	1.5%
Debt Service net of prepayment.						

Personal Service (PS) expenditures are projected to increase by \$7.636 billion, or 13.8 percent, from \$55.25 billion to \$62.886 billion, an average annual increase of 3.3 percent from FYs 2023 to 2027. Fringe Benefits and Pensions expenses are the primary contributors to PS growth at 25.5 percent and 17.5 percent, respectively. Fringe Benefit expenses, which are projected to grow \$3.153 billion from \$12.376 billion in FY 2023 to \$15.529 billion in FY 2027, include Social Security taxes, unemployment insurance, supplemental welfare benefits, workers' compensation, and health insurance. Of these components, the cost of health insurance is the largest expense. In the April financial plan, projected pay-as-you-go health insurance costs for active and retired city employees grow at an average annual rate of 10.5 percent from \$6.907 billion in FY 2023 to \$10.289 billion in FY 2027, or 49 percent. However, health insurance cost is reduced by a prepayment of \$792 million of FY 2023 retiree health insurance cost in FY 2022. Net of this prepayment, the projected annual growth in health insurance drops to 7.5 percent. The projected growth reflects rising health insurance premium rates.

The other main area of growth is Debt Service expense, which is expected to increase by 28.9 percent over FYs 2023–27, as shown in Table 14. The April financial plan indicates debt service costs are forecasted to grow by \$2.181 billion, rising from \$7.544 billion to \$9.725 billion, excluding prepaid debt service expenses. For a more detailed discussion of debt service growth, see “The Capital Program and Related Debt,” beginning on page 29.

In contrast, Other Than Personal Service (OTPS) expenditures are expected to decrease by 15.5 percent between FYs 2023 and 2027, as shown in Table 14. The April financial plan assumes a net reduction in this spending area of \$7.971 billion dropping from \$51.506 billion to \$43.535 billion. The major contributor to the net decrease is Other OTPS expenses, which are projected to shrink by 19.1 percent over FYs 2023–27. The decline in Other OTPS spending is partially offset by higher Medical and Public Assistance expenses that increase by 3.8 percent and 1.5 percent, respectively, over the financial plan period.

City-Funded Expenditures

The April financial plan projects city-funded expenditure growth of \$12.156 billion, or 15.7 percent, between FYs 2023 and 2027, increasing from \$77.260 billion to \$89.414 billion. The expected average annual growth rate over the plan period is 3.7 percent. Excluding net prepayment, FY 2023 city-funded expenditures are projected at \$80.339 billion, resulting in a much smaller growth of \$9.076 billion between FYs 2023 and 2027, or 11.3 percent.

Table 15. Projected City-Funded Expenditures Growth FYs 2023–27

(\$ in millions)

	FYs 23–24	FYs 24–25	FYs 25–26	FYs 26–27	FYs 23–27	Average Annual
Service Agencies	(5.7%)	(0.3%)	0.7%	1.6%	(3.8%)	(1.0%)
Uniformed	(11.5%)	3.2%	1.4%	0.6%	(6.7%)	(1.7%)
Health and Welfare	(0.4%)	(9.5%)	(2.4%)	4.2%	(8.3%)	(2.1%)
Mayoral	(7.1%)	(7.3%)	1.1%	(0.1%)	(13.0%)	(3.4%)
Major Organizations	(5.7%)	8.9%	2.3%	1.3%	6.3%	1.5%
Elected Officials	(2.3%)	(2.5%)	0.6%	(0.2%)	(4.4%)	(1.1%)
Other Budgetary	2.3%	9.3%	8.9%	7.3%	30.6%	6.9%
Miscellaneous	1.4%	11.9%	11.5%	10.5%	39.8%	8.7%
Debt Service	3.9%	5.9%	9.5%	7.8%	30.0%	6.8%
Pensions	2.4%	8.2%	4.5%	1.7%	17.8%	4.2%
Total Expenditures	(0.4%)	7.4%	4.0%	4.0%	15.7%	3.7%

Miscellaneous and Debt Service are net of prepayments.

As shown in Table 15, expenses in Service Agencies are projected to decline over FYs 2023–27 by 3.8 percent, or \$1.94 billion. All categories in this budget area are expected to realize spending decreases except for Major Organizations, which is anticipated to exhibit spending growth over the plan period. Notable is the year-to-year expenditures change in Service Agencies between FYs 2023 and 2024, which is projected to decline by a combined 5.7 percent.

Major Organizations encompass the DOE, City University of New York (CUNY), and NYC Health + Hospitals (H+H). The April financial plan indicates city-funded spending for this budget area will grow from \$16.838 billion to \$17.904 billion, an increase of \$1.066 billion, or 6.3 percent. Of the three organizations in this category, expenditure growth is mainly due to higher projected spending in the DOE rising from \$14.514 billion in FY 2023 to \$15.95 billion in FY 2027, representing growth of \$1.436 billion, or 9.9 percent. Much of the expense increase at the DOE is based on the resumption of growth between FYs 2024–27. After a decrease in spending of 4.5 percent between FYs 2023 and 2024, the DOE is expected to exhibit growth of more than 15 percent between FYs 2024 and 2027.

In Other Budgetary expenditures, which includes Miscellaneous, Debt Service, and Pension costs, projected growth is 30.6 percent for FYs 2023–27, as shown in Table 15. The increase is driven mainly by higher growth in Miscellaneous and Debt Service expenses at 39.8 percent and 30 percent, respectively. Higher Miscellaneous spending reflects increases over the plan period in labor reserve funding and health insurance. The April financial plan projects city-funded expenditure growth in Pensions over FYs 2023–27 to be \$1.646 billion, increasing from \$9.269 billion to \$10.916 billion, or 17.8 percent. Financing the city's expanded capital program is driving the growth in debt service

expenses. For a more detailed discussion of the city's capital program and resulting debt, see "The Capital Program and Related Debt," beginning on page 29.

Uniformed Overtime

Overtime expenses in Uniformed Services (Police, Fire, Correction and Sanitation Departments), including uniformed and civilian personnel, are expected to total \$1.6 billion in FY 2023, dropping to \$977 million in FY 2024, \$960 million in FY 2025, and \$956 million in each of FYs 2026 and 2027. Excluding civilian personnel, overtime costs are projected to be \$1.4 billion in FY 2023, declining to \$857 million in FY 2024, \$841 million in FY 2025, and \$838 million in each of FYs 2026 and 2027.

Overtime costs have escalated in the Police Department due in part to \$62 million of spending in FY 2023 that is part of a joint initiative between the city and the state to make the subway system safer. The initiative deploys additional overtime shifts to surge the presence of police officers throughout the subway system with some of the cost reimbursed by the state. The Department of Correction has experienced problems with the recruitment of uniformed staff, which has accelerated the use of overtime.

Through March 2023, actual overtime expenditures for only uniformed personnel totaled \$1.127 billion, which is \$354 million more than through December 2022. Based on these actuals, the FCB believes that uniformed personnel, excluding civilians, for the four agencies combined will log total overtime of \$1.503 billion by the end of FY 2023. The FCB's risk assessment over the life of the plan, as shown in Table 3 on page 5, projects a funding shortfall of \$98 million in FY 2023, \$647 million in FY 2024, \$662 million in FY 2025, and \$666 million in each of FYs 2026 and 2027.

Education

The April financial plan projects total-funded spending in the DOE of \$30.549 billion in FY 2024, increasing to \$30.639 billion in FY 2025, \$30.838 billion in FY 2026, and \$31.038 billion in FY 2027, for growth of \$489 million between FYs 2024 and 2027, or about 1.6 percent. Average annual growth over the plan is just 0.5 percent. City-funded expenditures are expected to be \$13.862 billion in FY 2024, rising to \$15.109 billion in FY 2025, \$15.75 billion in FY 2026, and \$15.95 billion in FY 2027, exhibiting growth of \$2.088 billion, or 15.06 percent. Average annual growth over the plan is 4.79 percent.

Changes since the January financial plan include new needs of approximately \$12 million in FY 2024, \$8.7 million in FY 2025, and \$3.2 million in each of FYs 2026 and 2027. New needs for DOE are comprised of climate education funding at an expected cost of \$2.1 million in each of FYs 2024–27; culinary training and food education at \$6.6 million in each of FYs 2024–25, and \$1.1 million in each of FYs 2026–27; and support for shelter-based community coordinators at \$3.3 million in FY 2024. Other changes in the plan are higher costs in each of FYs 2024–27 for heat, light and power of \$72.1 million and heating fuel of \$17.1 million.

The April financial plan PEG is projected to reduce city-funded expenditures in the DOE by \$325 million in FY 2024, \$355 million in FY 2025, \$364 million in FY 2026, and \$366 million in FY 2027. Much of the savings come from fringe benefit adjustments that in each of FYs 2024–27 account for about 95 percent of the PEG. When the November and January financial plan PEGs are included, total savings are nearly \$4 billion over FYs 2024–27.

The FY 2024 Enacted State Budget authorized the reissuance of previously surrendered, revoked, or terminated charters for fourteen schools in the city. The city's cost estimate, which is not reflected in the April financial plan, is \$24 million in FY 2025, \$63 million in FY 2026, and \$92 million in FY 2027, rising to \$175 million per fiscal year when all schools are fully operational. The estimate assumes that all fourteen charter revivals are kindergarten through grade 5, have five hundred students per school, and will begin to open in FY 2025. Also not included in the financial plan, is the state mandate to reduce class sizes in the city's public schools for grades kindergarten through twelve phased in over five years beginning in FY 2024. The city has estimated an annual cost of about \$1.3 billion once fully phased in FY 2028.

The largest component of state funding to the city is foundation aid. Foundation aid supports public school district expenditures and is the main education operating aid formula used by the state. It is focused on allocating funds equitably to all school districts, especially high-need districts, based on student need, community wealth, and regional cost differences. The FY 2024 enacted state budget allocates \$9.427 billion to the city for FY 2024, which is an increase of \$495 million above FY 2023. The increase in foundation aid to the city is not fully reflected in the April financial plan. The city has projected foundation aid of \$9.145 billion, an upside difference of \$281 million.

Budget Risks

The April financial plan assumes a balanced budget in each of FYs 2023 and 2024, and budget gaps of \$4.196 billion in FY 2025, \$5.952 billion in FY 2026, and \$6.977 billion in FY 2027. As shown in Table 3 on page 5, the FCB estimates gaps of \$2.632 billion in FY 2024, \$8.074 billion in FY 2025, \$11.333 billion in FY 2026, and \$13.872 billion in FY 2027. However, the FCB estimates the city will have a surplus of \$162 million in FY 2023.

The FY 2024 Enacted State Budget includes provisions that have not been reflected in the April financial plan. Over FYs 2024-27, the phase-in of the state's retention of federal eFMAP funding to localities will cost the city an additional \$217 million in FY 2024 increasing to \$434 million in FY 2027. In each of FYs 2024 and 2025, the city is required to increase its share of the net paratransit operating expenses of the Metropolitan Transportation Authority from 50 percent to 80 percent with a cap of \$165 million. Beginning on July 1, 2023, the mobility payroll tax for the city rises from 0.34 percent to 0.60 percent, which the FCB estimates would result in additional payroll tax liability of \$68 million in FY 2024, increasing to \$76 million by FY 2027.

In education, the enacted state budget includes the reissuance of fourteen charters for charter schools in the city. A partial offset is higher-than-budgeted foundation and school formula-based aid that is expected to be \$337 million in FY 2024. In addition, the FCB estimates education risks of \$207 million in FY 2023 growing to \$2.231 billion in FY 2027. A main contributor to the risk is the state mandate to reduce class sizes, which the FCB estimates would cost \$433 million in FY 2026 increasing to \$863 million by FY 2027.

In Health and Welfare agencies, potential budget risks sum to \$83 million in FY 2023 growing to \$1.905 billion in FY 2027. Funding the expense of services for asylum seekers is a main component of the risk that the FCB projects will cost the city an additional \$400 million in FY 2024 rising to \$710 million in FY 2027 due to uncertainty in federal funding and residual expenditures.

The FCB's estimated expenditure risk in the plan is projected at \$388 million in FY 2023, \$2.721 billion in FY 2024, \$3.189 billion in FY 2025, \$4.625 billion in FY 2026, and \$5.442 billion in FY 2027. The FCB's higher revenue estimates offset some of these risks in FYs 2023 and 2024. As a result, the FCB projects a budget surplus in FY 2023 of \$162 million and a net risk of \$2.632 billion in FY 2024. In contrast, the FCB's lower revenue forecast heightens the net risk assessment in FYs 2025–27 to \$3.878 billion, \$5.381 billion, and \$6.895 billion, respectively.

The Capital Program and Related Debt

With the release of the April 2023 Financial Plan, the city produced an expanded Five-Year Capital Plan for FYs 2023–27 and Ten-Year Capital Strategy for FYs 2024–33. Authorized total-funded commitments amount to \$98 billion in the capital plan and \$165 billion in the capital strategy. At the current level, the capital program is expected to produce rising debt from general obligation (g.o.) bonds sold by the city and Future Tax Secured (FTS) bonds sold by the New York City Transitional Finance Authority (NYCTFA). Financing the program will require an increasing portion of the city's tax revenues to pay debt service costs projected to reach 14.4 percent of tax revenues in FY 2033, which is close to the affordability level determined by the city at 15 percent. In addition, city g.o. and NYCTFA FTS outstanding debt is projected to grow to almost \$115 billion by FY 2027. Based on the city's calculations, available debt-incurring power set by the authorized limit is projected to shrink to \$8 billion by FY 2027, which may cause the city to constrain its capital program.

Five-Year Capital Plan

In the capital plan that was released with the Executive Budget in April 2023, the city projects to enter into \$97.9 billion of total-funded authorized capital commitments during FYs 2023–27, most of which are city-funded at \$93.6 billion. Commitments in the capital plan represent the total contractual amounts entered into for individual capital projects. Compared to the prior five-year capital plan released in January, total funds represent a net increase of \$1.4 billion. As displayed in the figure to the right, the city decreased commitments in FY 2023, while increasing commitments over FYs 2024–27. The reduction to the level of capital contracts planned in the current fiscal year will make the FY 2023 projection more feasible.

Growth in FYs 2023–27 Capital Plan (\$ in millions)		
FY	Total-Funded Commitments	Change
2023	\$18,724	(\$2,734)
2024	24,299	2,119
2025	19,869	856
2026	17,645	611
2027	<u>17,393</u>	<u>533</u>
Total	\$97,931	\$1,386
Numbers may not add due to rounding.		

In the analysis of the five-year capital plan by individual areas, the FCB reviewed the net changes of more than \$100 million in total-funded commitments in the current plan since the prior plan, as presented in Table 16 on page 30. The summary of the major changes shows several areas including the Departments of Correction, Housing Preservation and Development, and Parks and Recreation as well as education receiving additional funding, which are partially offset by reductions to the capital plan in other areas comprising Health + Hospitals, and the Departments of Transportation and Environmental Protection.

Table 16. Five-Year Capital Plan FYs 2023–2027 Net Changes Compared to the January 2023 Plan

(\$ in millions)

Five-Year Plan Authorized Capital Commitments	April 2023 Capital Plan City Funds	April 2023 Capital Plan Total Funds	Change from Jan 2023 Capital Plan City Funds	Change from Jan 2023 Capital Plan Total Funds
Correction	\$9,580	\$9,613	\$1,481	\$1,481
Housing Preservation and Development	9,643	9,864	557	618
Department of Education	15,525	15,678	314	314
City University	695	700	287	287
Parks and Recreation	3,777	4,177	223	260
Health + Hospitals	1,968	2,641	(257)	(351)
Department of Transportation	9,987	11,290	(580)	(498)
Department of Environmental Protection	14,803	15,295	(732)	(701)
All Others*	27,582	28,673	(19)	(26)
Total	\$93,560	\$97,931	\$1,275	\$1,386

*All Others include Transit, Housing Authority, Sanitation, Public Buildings, Small Business Services, Energy Efficiency and Citywide Equipment, Courts, Police, Fire, Homeless Services, Health, Human Resources, Children's Services, Libraries, Cultural Affairs, Real Estate and Aging.
Numbers may not add due to rounding.

As displayed in Table 16, planned commitments in the Department of Correction totaling \$9.6 billion had the largest growth of almost \$1.5 billion for the acquisition, construction of borough-based jails and new jail facilities. The Housing Preservation and Development's capital plan increased by \$618 million to \$9.9 billion. Most of the expansion is scheduled to fund low- or no-interest loans through several programs to promote rehabilitation and energy efficiency improvements for affordable housing.

The two areas making up education, the Department of Education (DOE) and City University of New York (CUNY), were allocated \$15.7 billion and \$700 million, respectively. DOE's capital plan was increased by \$314 million, and CUNY's commitments grew by \$287 million. DOE received added funding for the construction and reconstruction of educational facilities, and CUNY's additional funding supports construction and improvement to senior college buildings. The Department of Parks and Recreation's capital plan at \$4.2 billion is enlarged by \$260 million compared to the previous plan. Most of the increase in funding will support capital projects related to recreation and nature centers citywide.

A few areas had capital contracts reduced in the five-year plan. Health + Hospitals reduced their commitments by \$351 million to \$2.6 billion. Most of the decrease was to hospital improvements citywide. The Department of Transportation, with commitments at \$11.3 billion, reduced its five-year capital plan by a net \$498 million, which primarily consists of decreases to construction and reconstruction of highways, and the reconstruction and rehabilitation of highway bridges.

Capital contracts scheduled to be undertaken by the Department of Environmental Protection (DEP), totaling \$15.3 billion, are reduced by approximately \$700 million with

two areas, sewers and water pollution control, making up the majority of the decline. Commitments for sewers are decreased by \$497 million, mostly in projects for professional services for sanitary and combined drainage plan preparation. Water pollution control received \$153 million less funding primarily in projects involving combined sewer overflow abatement facilities.

Capital Financing and Debt Affordability

The part of the city's capital program that is financed by tax-supported debt is represented in the operating budget as annual debt service costs. The debt service costs are projected based on the amount of targeted commitments the city expects to realistically undertake. As presented in the figure to the right, the greater part of the capital plan at \$60.6 billion or 81.1 percent is slated to be financed by g.o. bonds to be sold by the city and FTS bonds to be issued by the

FYs 2024–27 Targeted Commitments	April 2023 Capital Plan	Percent of Total
(\$ in millions)		
City Funded:		
G.O./NYCTFA	\$60,640	81.1%
NYW	<u>10,773</u>	<u>14.4%</u>
Subtotal	\$71,412	95.5%
NonCity Funded	<u>\$3,339</u>	<u>4.5%</u>
Total	\$74,751	100%
Numbers may not add due to rounding.		

NYCTFA. The DEP capital projects, totaling \$10.8 billion and representing 14.4 percent of the capital plan, are supported with bonds issued by New York City Municipal Finance Water Authority (NYW) and backed by water and sewer user fees. The remaining \$3.3 billion or 4.5 percent will be supported with noncity sources.

For a comprehensive analysis of the debt resulting from the city's capital program, the FCB used the framework of the annual Statement of Debt Affordability that was released by the city at the time of the April financial plan. The Statement of Debt Affordability presents the debt service and outstanding debt levels for FYs 2024–27 on all bonds backed by tax revenues sold to support the city's capital program, as well as city lease agreements.¹⁷ Table 17 on page 32 displays these measures.

¹⁷ Debt service projections are net of prepayments. The Statement of Debt Affordability covers FYs 2024-27. In FY 2023, debt service estimates are \$7.5 billion and are projected to require 10.6 percent of tax revenues.

Table 17. Debt Affordability Measures

(\$ in millions, except per capita)

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>Average Annual Growth</u>
City & NYCTFA Debt Service	\$ 7,815	\$ 8,266	\$ 9,034	\$ 9,725	7.6%
Debt Service Per Capita	\$ 923	\$ 976	\$ 1,067	\$ 1,148	
Debt Service as Percentage of:					
Tax Revenues	11.0%	11.3%	12.1%	12.6%	
Total Revenues	7.3%	7.8%	8.5%	9.0%	
Local Personal Income	1.1%	1.1%	1.1%	1.1%	
City, NYCTFA & Conduit Outstanding Debt	\$ 92,297	\$ 99,363	\$107,022	\$115,237	7.7%
Outstanding Debt Per Capita	\$ 10,900	\$ 11,735	\$ 12,639	\$ 13,609	
Outstanding Debt as Percentage of:					
Local Personal Income	12.5%	12.9%	13.2%	13.6%	
Tax Revenues	\$ 71,139	\$ 72,834	\$ 74,472	\$ 76,921	2.6%
Total Revenue	\$106,688	\$105,855	\$106,188	\$108,632	0.6%
Local Personal Income	\$737,240	\$773,040	\$808,840	\$846,970	4.7%

In its Statement of Debt Affordability, the city projects that debt service will climb from \$7.8 billion in FY 2024 to \$9.7 billion in FY 2027. This reflects an average annual growth rate of 7.6 percent. Meanwhile, the city projects tax revenues will increase from \$71.1 billion in FY 2024 to \$76.9 billion in FY 2027, based on a slower average annual growth rate, relative to debt service, of 2.6 percent over the plan years. As a result, the share of tax revenues that debt service will consume is forecasted to grow from 11.0 percent in FY 2024 to 12.6 percent in FY 2027.

Table 17 also provides measures of debt service costs using other indicators. Per capita debt service is projected to increase from \$923 in FY 2024 to \$1,148 in FY 2027. Furthermore, debt service payments are forecast to consume an increasing share of total revenues from 7.3 percent in FY 2024 to 9.0 percent in FY 2027. Meanwhile, debt service as percentage of local personal income remains level at 1.1 percent over FYs 2024–27. At 7.6 percent, the average annual rate of growth for debt service surpasses the rates for tax revenues at 2.6 percent, total revenues at 0.6 percent, and local personal income at 4.7 percent.

Table 17 also reveals that the combined outstanding debt is forecast to rise from \$92.3 billion at the end of FY 2024 to \$115.2 billion at the end of FY 2027, for an average annual growth rate of 7.7 percent. Outstanding debt increases as the city and NYCTFA are scheduled to issue an annual average of \$11.5 billion in long-term bonds over FYs 2024–27 to finance the capital plan. Accordingly, outstanding debt per capita is expected to rise from \$10,900 in FY 2024 to \$13,609 in FY 2027. Meanwhile, the debt-to-income ratio is forecasted to grow from 12.5 percent in FY 2024 to 13.6 percent in FY 2027, as the growth rate for outstanding debt is predicted to outpace that of personal income.

The Statement of Debt Affordability also includes estimates for the city's debt incurring power. Based on long-term borrowing estimates, the city and NYCTFA debt subject to the debt limit will grow from \$109 billion in FY 2024 to \$142 billion in FY 2027, which results in the remaining debt-incurring power declining to \$8.0 billion in FY 2027.¹⁸ Given the lingering uncertainty surrounding the commercial real estate market, growth in the citywide full market value and billable assessed value may not be as strong as the city predicts. The city will need to remain mindful that the affordability and sustainability of such a large capital strategy may be impractical.

Ten-Year Capital Strategy and Debt Costs

With the April 2023 financial plan, the city released a finalized Ten-Year Capital Strategy for FYs 2024–33 that comprises an increased scope.¹⁹ The strategy contains a record high \$165 billion of total-funded authorized capital commitments, which is \$31 billion more than the prior strategy released in April 2021 and \$5.4 billion higher than the preliminary ten-year strategy released in January 2023. The current strategy reflects an enlargement in every area of the capital program except for the Department of Education.

As part of the review of the ten-year capital strategy, the FCB analyzed the lifecycle category summary. The city classifies its capital commitment investments into three lifecycle categories: state of good repair, which represents essential repair work needed chiefly because of deferred maintenance; programmatic replacement, which represents replacement of equipment and asset components at regular intervals at the end of their life cycle; and program expansion, which represents the addition of assets. The lifecycle category summary for the current ten-year strategy reflects the city's priority to maintain and modernize its infrastructure and facilities, as 77 percent of the strategy, or \$127 billion of commitments are planned for repair and replacement projects.

Capital Strategy Profile

The figure to the right shows the breakdown and increase to each lifecycle category. The largest portion of commitments in the capital strategy at \$89.9 billion, or 55 percent, is classified as state of good repair projects. In this category, capital projects for bridges, education, highways, housing and parks account for \$64.9 billion. Commitments for programmatic replacement projects amount to \$36.6 billion, or 22 percent, with sizeable distributions for environmental protection and correction capital projects at a combined \$21.7 billion. Meanwhile, commitments classified as program expansion

April 2023 Strategy Ten-Year Lifecycle Category (\$ in millions)	Authorized Commitments Total Funds		Increase from Apr. 2021
State of Good Repair	55%	\$89,917	\$19,421
Program Replacement	22%	36,585	3,024
Program Expansion	<u>23%</u>	<u>38,277</u>	<u>8,588</u>
Total	100%	\$164,778	\$31,033
Numbers may not add due to rounding.			

¹⁸ The state constitution restricts the amount of outstanding g.o. debt and capital contracts to be funded by g.o. debt to ten percent of the five-year average full value of taxable real estate in the city. In July 2009, legislative authorization allowed the NYCTFA to have outstanding debt above its \$13.5 billion limit providing that the additional debt, combined with the amount of outstanding g.o. debt, does not exceed the debt limit of the city. Starting in FY 2010, the portion of NYCTFA outstanding debt exceeding \$13.5 billion has been included as part of the debt subject to the limit.

¹⁹ In accordance with its charter requirement, every two years the city outlines its capital program strategy for the ensuing ten-year period.

aggregate to \$38.3 billion, or 23 percent, with the largest allocations for environmental protection, housing, business services and education projects summing to \$36.9 billion.

Table 18 presents both total- and city-funded authorized capital commitments by functional area groups and the change from the prior capital strategy released in April 2021. To evaluate the city's capital priorities planned in FYs 2024–33, the FCB has chosen to focus on the change in total-funded capital commitments in a comparison of the current ten-year strategy to the previous capital strategy. As shown in the table, total-funded commitments were increased by \$31 billion, with the growth almost equally split between infrastructure and non-infrastructure areas at \$15.4 billion and \$15.6 billion, respectively.

Table 18. Total-Funded Ten-Year Capital Strategy was Increased by \$31 Billion Compared to the Prior Strategy

(\$ in millions)

Ten-Year Authorized Capital Commitments	April 2023 City Funds	April 2023 Total Funds	Change Apr.23–Apr.21 City Funds	Change Apr.23–Apr.21 Total Funds
Total Program	\$160.636	\$164,778	\$31,347	\$31,033
<u>Infrastructure Total</u>	\$60,879	\$62,620	\$15,758	\$15,405
Transportation	30,451	31,553	9,077	8,708
Environmental Protection	28,367	29,006	6,322	6,337
Transit	2,060	2,060	360	360
<u>Non-Infrastructure Total</u>	\$99,757	\$102,159	\$15,589	\$15,628
Housing	23,464	23,864	8,659	8,739
Education-DOE & CUNY	19,234	19,369	(3,733)	(3,602)
Gen.& Business Services, Equip.& Energy Efficiency	18,788	19,169	2,854	2,680
Public Safety	17,110	17,244	2,255	2,250
Cultural, Libraries & Parks	11,367	11,832	4,198	4,241
Hospitals, Health & Social Services	9,793	10,680	1,355	1,321

Numbers may not add due to rounding.

Department of Transportation. As shown in Table 18, The Department of Transportation at \$31.6 billion received \$8.7 billion in additional funding compared to the prior ten-year capital program. Most of the increase is for state of good repair projects, mainly focusing on bridges and highways capital projects, including bridge life extension and improvements, as well as street reconstruction and resurfacing, and sidewalk construction, citywide.

Department of Environmental Protection. The Department of Environmental Protection (DEP) is planning to undertake \$29 billion of capital commitments to ensure the city's water and sewer systems are maintained. DEP's capital commitments have been enlarged by \$6.3 billion in the current strategy compared to the prior strategy. Most of the increase includes investments categorized as expansion projects for sewers and water mains, comprising professional services for sanitary and high-level storm sewers, as well as projects for water main extensions citywide, improvements of structures including equipment on water sheds outside the city, trunk main extensions and improvements to pumping stations and buildings.

Housing. Total-funded commitments for housing at \$23.9 billion were stepped up by \$8.7 billion, as displayed in Table 18 on page 34. Commitments for housing are distributed between two agencies, the Department of Housing Preservation and Development (HPD) and New York City Housing Authority. Almost 83 percent of the growth in housing is for HPD expansion and repair projects that will support the city's ongoing housing initiatives to build and/or preserve housing units citywide in order to meet the goals of the Mayor's housing plans. Most of the HPD increase will fund new housing construction activities, low-income rental programs and supportive housing programs for people with special needs.

Education. As presented in Table 18 on page 34, the distribution for education in the FYs 2024–33 strategy is \$19.4 billion in total-funded capital support, with \$17.9 billion allocated to the Department of Education (DOE) and \$1.5 billion to the City University of New York (CUNY). DOE's commitments decreased by \$4.3 billion compared to the prior strategy, which were partially offset by increased funds of \$739 million for CUNY. The School Construction Authority (SCA) is developing plans for the upcoming FY 2025–2029 Five-Year Capital Plan, which includes creating new seats for projected enrollment growth and areas of overcrowding, as well as investments in infrastructure for enhanced educational services and better facilities. When the new five-year plan is established, commitments for DOE are expected to increase in the city's future capital program.

General and Business Services, Energy Efficiency and Citywide Equipment. At \$19.2 billion, total-funded commitments in the current strategy for the areas of energy efficiency and citywide equipment, public buildings and business services were enlarged by \$2.7 billion, as presented in Table 18 on page 34. The greater portion of the increased investment supports expansion projects included in the Department of Small Business Services for the acquisition, site development, and reconstruction of capital projects for commercial and industrial development initiatives citywide.

Public Safety. This area includes the Departments of Correction, Police and Fire as well as Courts totaling \$17.2 billion in total-funded commitments with an overall increase of \$2.3 billion. The Department of Correction is scheduled to receive almost half of the total growth at \$1.1 billion, mostly for repair and replacement capital projects including the construction, reconstruction, and improvements to correction facilities citywide and the acquisition and construction of supplementary housing and support facilities.

Cultural, Libraries & Parks. The Department of Parks and Recreation (DPR) makes up the greater part of this area at \$8.9 billion of the \$11.8 billion total. In addition, DPR comprises the largest part of the \$4.2 billion increase at \$3.3 billion, most of which is categorized as state of good repair projects for citywide park improvements.

Hospitals, Health & Social Services. This area includes Health + Hospitals (H+H), Sanitation, Homeless Services, Health, Human Resources, Children's Services, and Aging. Total-funded commitments for these areas were increased by \$1.3 billion amounting to \$10.7 billion. H+H received the largest share of the funding increase for repair projects including citywide hospital improvements.

Financing Profile

Based on targeted amounts, the FYs 2024–33 capital strategy contains \$157.3 billion of city-funded capital commitments, representing an increase of \$28.4 billion since the prior strategy, as displayed in Table 19. Markedly, the current ten-year strategy is heavily city funded, with almost 81 percent, or \$130.3 billion covered by tax-supported debt financing to be undertaken by the city and the NYCTFA. Most of these tax-supported commitments are planned to be undertaken in the first five years of the strategy at \$74.0 billion, or 57 percent.

Table 19. City Tax-Supported Debt is Planned to Finance 81 Percent of the Capital Strategy

(\$ in millions)

Targeted Commitments Sources of Financing	FYs 2024–33 April 2023 Strategy	Percent of Total	FYs 2022–31 April 2021 Strategy	Percent of Total	Change
G.O./NYCTFA	\$130,293	80.7%	\$107,713	80.7%	\$22,580
NYW	<u>27,046</u>	<u>16.7%</u>	<u>21,274</u>	<u>15.9%</u>	<u>5,772</u>
City Funds Total	157,338	97.4%	128,987	96.7%	28,351
NonCity Funds Total	4,139	2.6%	4,459	3.3%	(320)
Total	\$161,477	100%	\$133,446	100%	\$28,031

Numbers may not add due to rounding.

Approximately 17 percent, or \$27 billion of commitments are designated for environmental protection projects covered by bonds to be sold by NYW, which are backed by city water and sewer user fees, not city tax revenues. Noncity funding sources account for a decreasing portion of the capital strategy at \$4.1 billion of the capital strategy.

Debt Profile

Debt service costs, net of prepayments, generated by the city and the NYCTFA are forecast to rise over FYs 2024–33. The expanded capital strategy contributes to debt service costs growing from \$7.8 billion in FY 2024 to \$9.7 billion in FY 2027, and continuing to climb to \$13.7 billion in FY 2033, for an average annual growth rate of 6.4 percent for the ten-year period, as shown in Table 20 on page 37. The projected annual debt service growth rates are considerable in FYs 2026–28, then fluctuate at lower rates in FYs 2029–33. As mentioned in “Financing Profile” above, the tax-supported portion of the strategy is front-loaded with 57 percent of commitments being entered into over FYs 2024–28, which contributes to the sharp debt service growth in the first five years of the strategy.

Table 20. The Expanded Capital Strategy Produces Mounting Debt Service Costs and Burden

(\$ in millions)

<u>FYs</u>	<u>Debt Service</u>	<u>Growth Rates</u>	<u>Tax Revenues</u>	<u>Growth Rates</u>	<u>Debt Service as Percent of Tax Revenues</u>
2024	\$7,815	3.6%	\$71,139	0.1%	11.0%
2025	8,266	5.8%	72,834	2.4%	11.3%
2026	9,034	9.3%	74,472	2.2%	12.1%
2027	9,725	7.6%	76,921	3.3%	12.6%
2028	10,631	9.3%	79,197	3.0%	13.4%
2029	11,284	6.1%	81,742	3.2%	13.8%
2030	11,700	3.7%	84,592	3.5%	13.8%
2031	12,423	6.2%	87,746	3.7%	14.2%
2032	13,090	5.4%	91,340	4.1%	14.3%
2033	13,656	4.3%	95,085	4.1%	14.4%
<u>Average Annual Growth Rates</u>					
FYs 2024–27	7.6%		2.6%		
FYs 2024–33	6.4%		3.3%		

Tax revenues, the main funding source for debt service, are currently forecast to grow by an average annual rate of 3.3 percent in FYs 2024–33, almost two times slower than the growth rate of debt service during this period. As a share of tax revenues, debt service will rise from 11.0 percent in FY 2024 to 12.6 percent in FY 2027. In the later years of the strategy, the percentage of tax revenues needed to pay debt service is estimated to range from 13.4 percent in FY 2028 to 14.4 percent in FY 2033. The annual burden is projected to remain under the affordability threshold of 15 percent partly because the city forecasts steady tax revenue growth beyond the financial plan years. In addition, annual debt service growth slows down after FY 2028 as the city projects to undertake a declining amount of capital expenditures.

The projections for debt service are at historically high levels to accommodate a record high ten-year capital strategy. The resulting debt service burden, projected to remain under the level considered affordable, is based on a forecast of strong and even growth in tax revenues, which may not be achievable. In addition to growing debt service costs, there are mounting outstanding debt projections from the city g.o. and NYCTFA FTS bond issuances required to finance the capital program. The combined outstanding debt is expected to reach \$114.5 billion in FY 2027. Based on long-term borrowing estimates, the city and NYCTFA projects to issue a total of \$115.2 billion in g.o. and FTS bonds over FYs 2024–33 to fund the capital projects in the ten-year strategy. Consequently, based on FCB's estimates, total outstanding debt will escalate by \$60.7 billion from \$91.4 billion in FY 2024 to \$152.0 billion in FY 2033.

V. Glossary of Acronyms

ARPA	American Rescue Plan Act
CUNY	City University of New York
DC 37	District Council 37
DEP	Department of Environmental Protection
DHS	Department of Homeless Services
DOE	Department of Education
DPR	Department of Parks and Recreation
eFMAP	enhanced Federal Medical Assistance Percentage
FCB	Financial Control Board
FOMC	Federal Open Market Committee
FTS Bonds	Future Tax Secured Bonds
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
G.O. Bonds	General Obligation Bonds
HERRCs	Humanitarian Emergency Response and Relief Centers
H+H	NYC Health + Hospitals
HPD	Department of Housing Preservation and Development
MTA	Metropolitan Transportation Authority
NYCTFA	New York City Transitional Finance Authority
NYW	New York City Municipal Water Finance Authority
OTPS	Other Than Personal Service
PBA	Police Benevolent Association
PEG	Program to Eliminate the Gap
PIT	Personal Income Tax
PS	Personal Service
PTET	Pass-through Entity Tax

RHBT	Retiree Health Benefits Trust
RSF	Revenue Stabilization Fund
SCA	School Construction Authority
SLFRF	State and Local Fiscal Recovery Funds
STAR	School Tax Relief

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